



Third Quarter 2008 Update

A Look at the Economy and
Washington Area
Commercial Real Estate Market



OVERVIEW

1. National Economy
2. Regional Economy
3. Washington Metro Area:
 - Condo Market
 - Apartment Market
 - Office Market
4. Capitol Riverfront BID



Source: Bloomberg News, NY Times.com, Getty Images, Time.com, December 2008.



Bread Line in Times Square, 1930

Source: Los Angeles Times; December 2008.

NOT A DEPRESSION

1. Good property performance fundamentals.
2. Massive equity still on the sidelines.
3. Equity at the property level.
4. Federal government willing and able to act.
5. Fortunate to be in the Washington metro area.



Source: Delta Associates; December 2008.



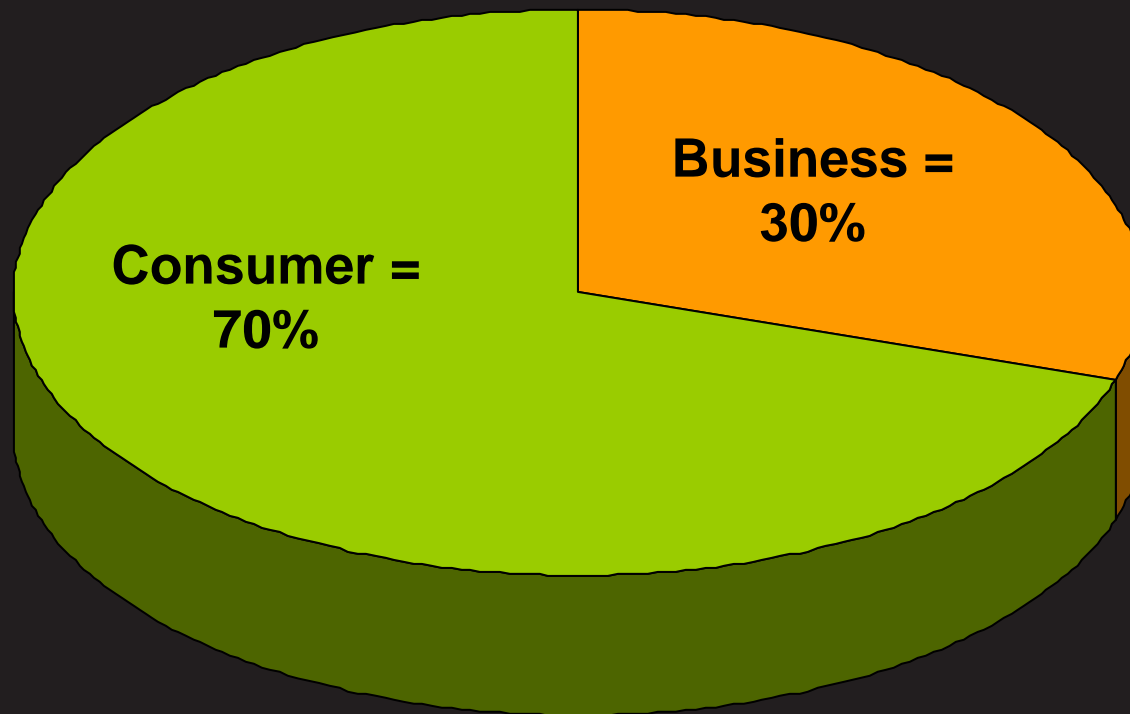
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THE NATIONAL ECONOMY



U.S. GROSS DOMESTIC PRODUCT

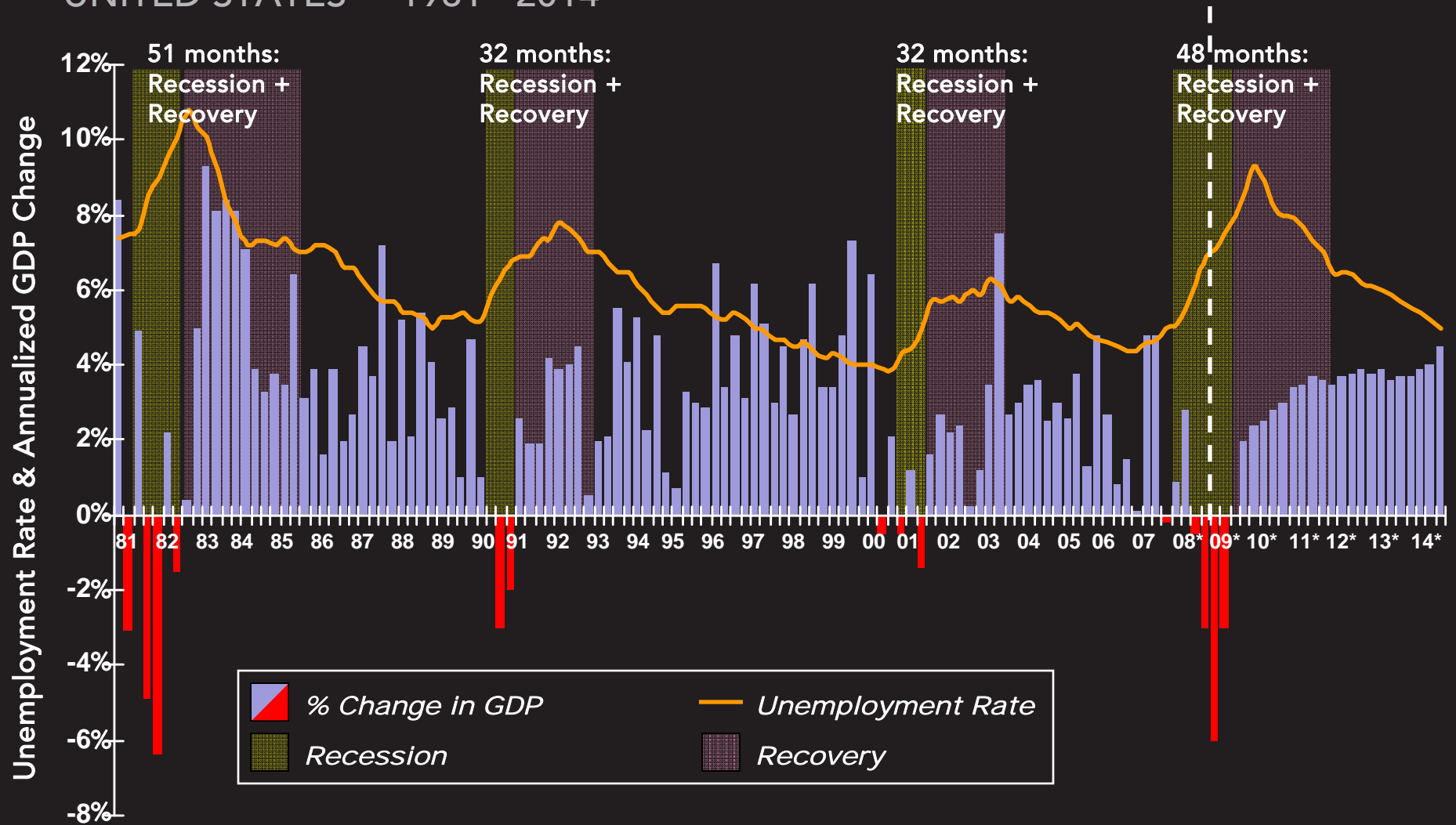


Source: Bureau of Economic Analysis, Delta Associates; December 2008.



ECONOMIC TRENDS & FORECAST

UNITED STATES 1981 - 2014

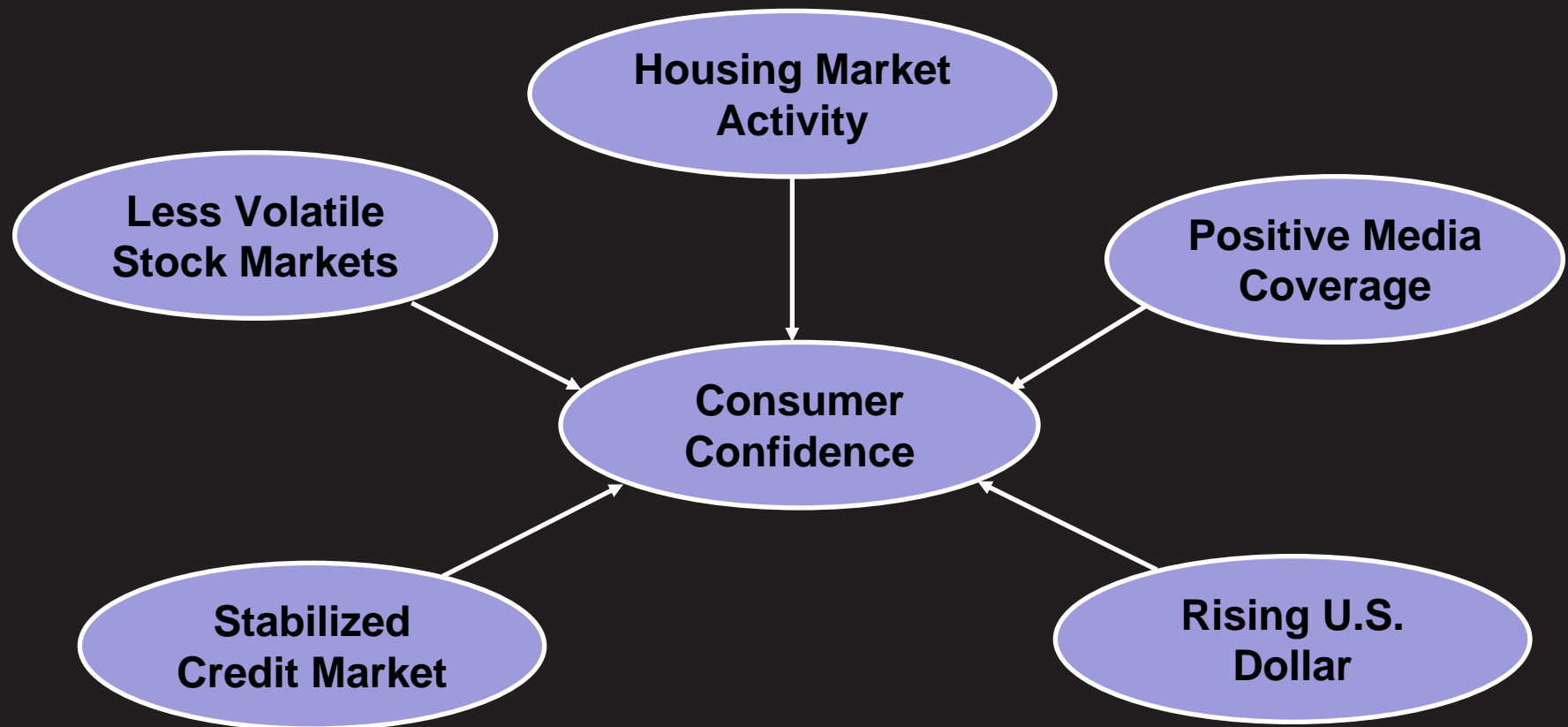


Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Delta Associates; December 2008.

*Q4 2008 and beyond are projections.



WHAT WILL REVIVE CONSUMER CONFIDENCE AND THEN THE ECONOMY?





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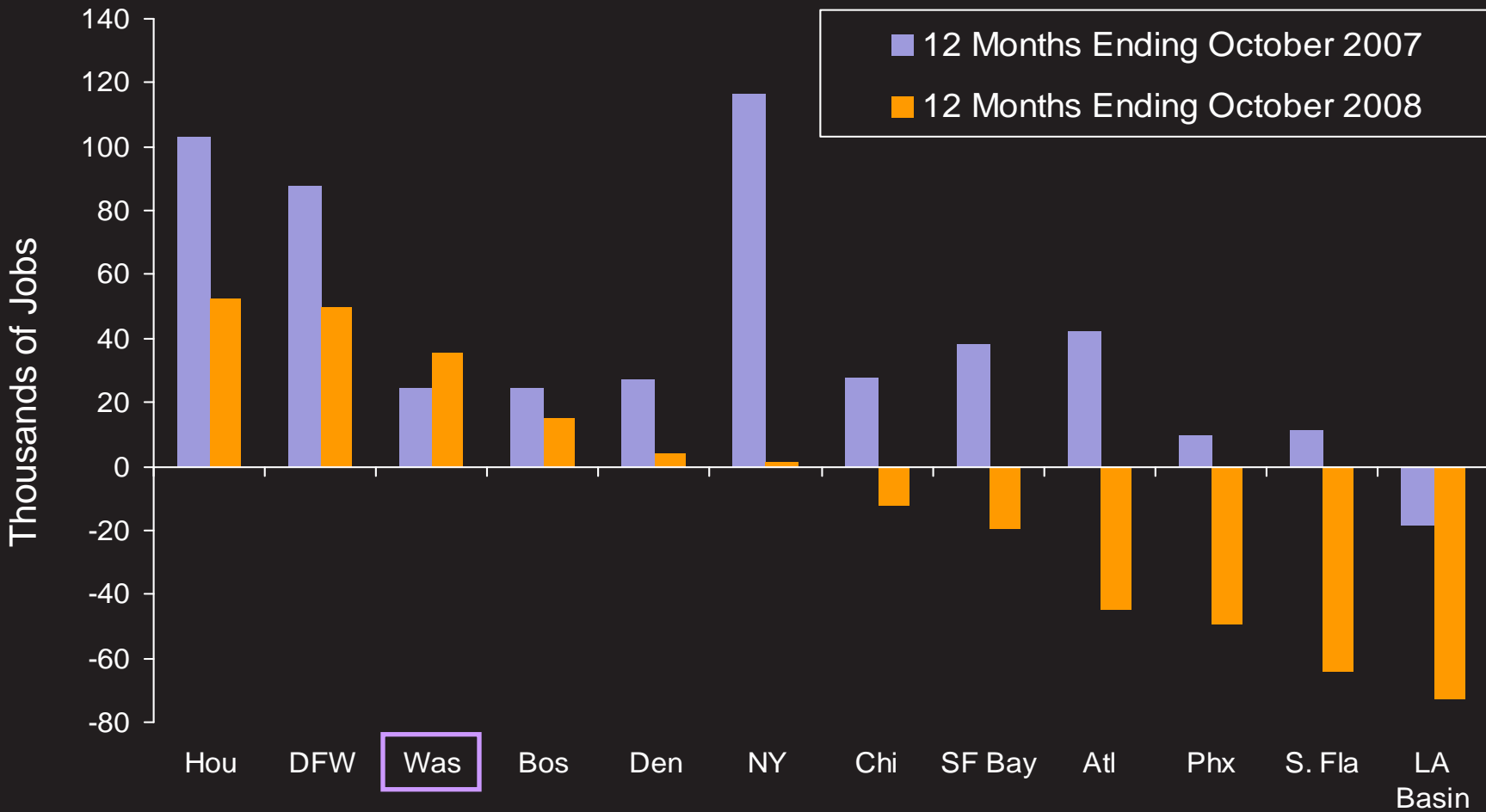


THE REGIONAL ECONOMY



PAYROLL JOB GROWTH

LARGE METRO AREAS

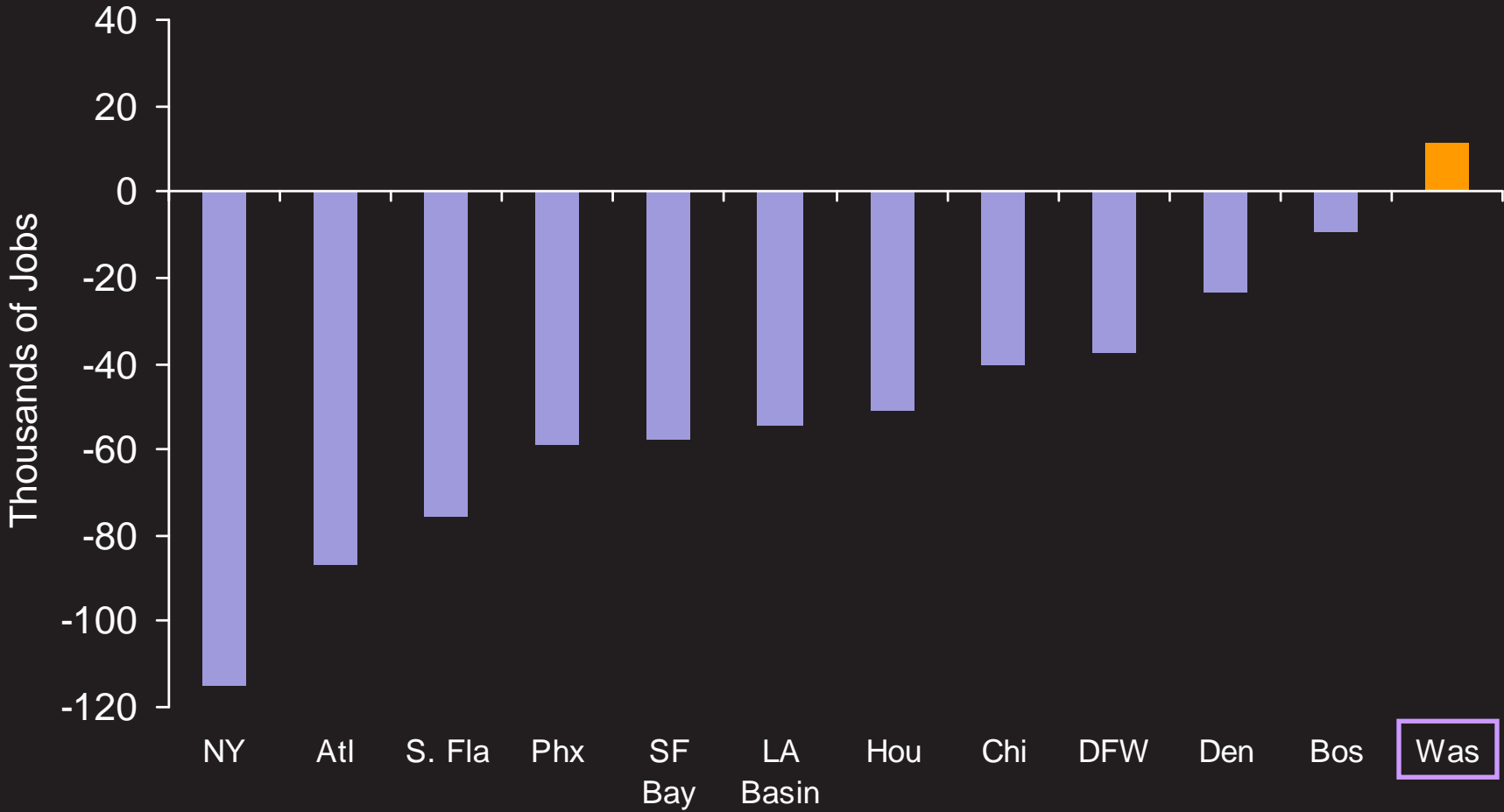


Source: Bureau of Labor Statistics, Delta Associates; December 2008.



PAYROLL JOB DIFFERENTIAL

LARGE METRO AREAS 12 MONTHS ENDING OCT. 2008 vs. 12 MONTHS ENDING OCT. 2007



Source: Bureau of Labor Statistics, Delta Associates; December 2008.



CORE INDUSTRIES

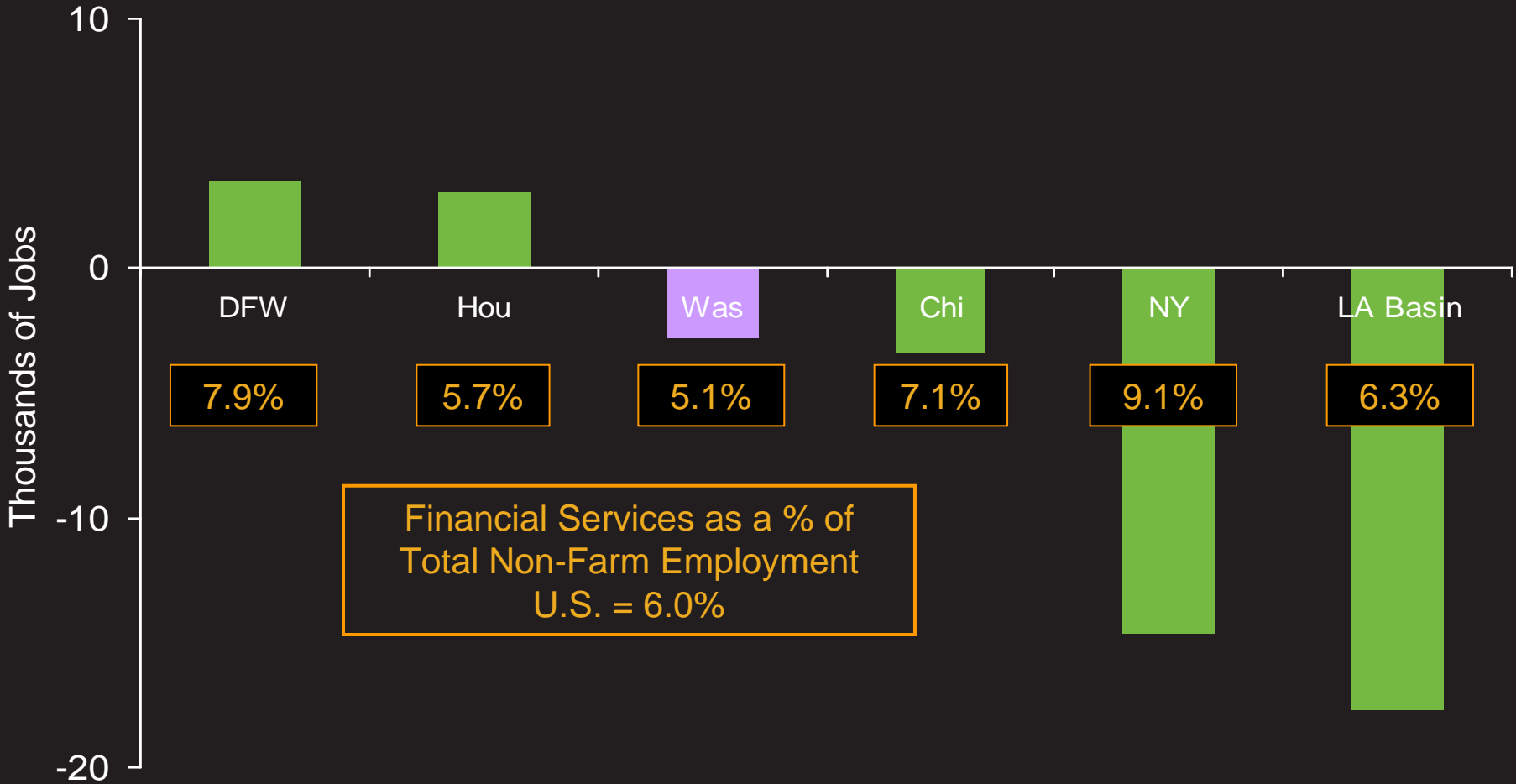
WASHINGTON METRO AREA 2007

Core Industries	% GRP
Federal Government (Federal Procurement = 16% of total GRP)	33%
Technology	16%
Building Industry	6%
International Business	5%
Tourism / Hospitality	<u>2%</u>
Total Core Industries	62%
Other	<u>38%</u>
Total GRP	100%



FINANCIAL SERVICES JOB GROWTH

LARGE METRO AREAS 12 MONTHS ENDING SEPTEMBER 2008

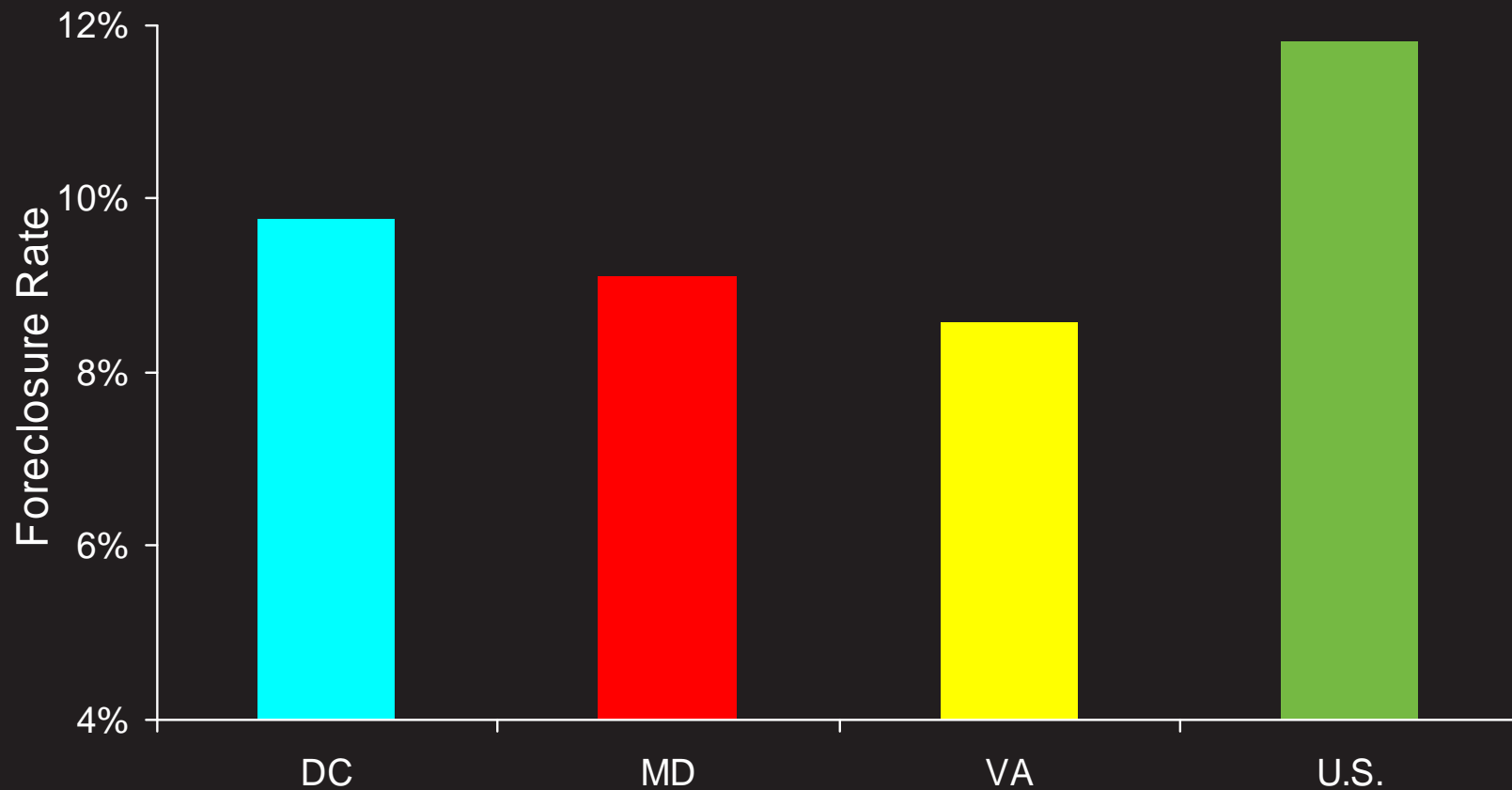


Source: Bureau of Labor Statistics, Delta Associates; December 2008.



SUBPRIME MORTGAGE FORECLOSURES

U.S. vs MID-ATLANTIC JURISDICTIONS MID-YEAR 2008

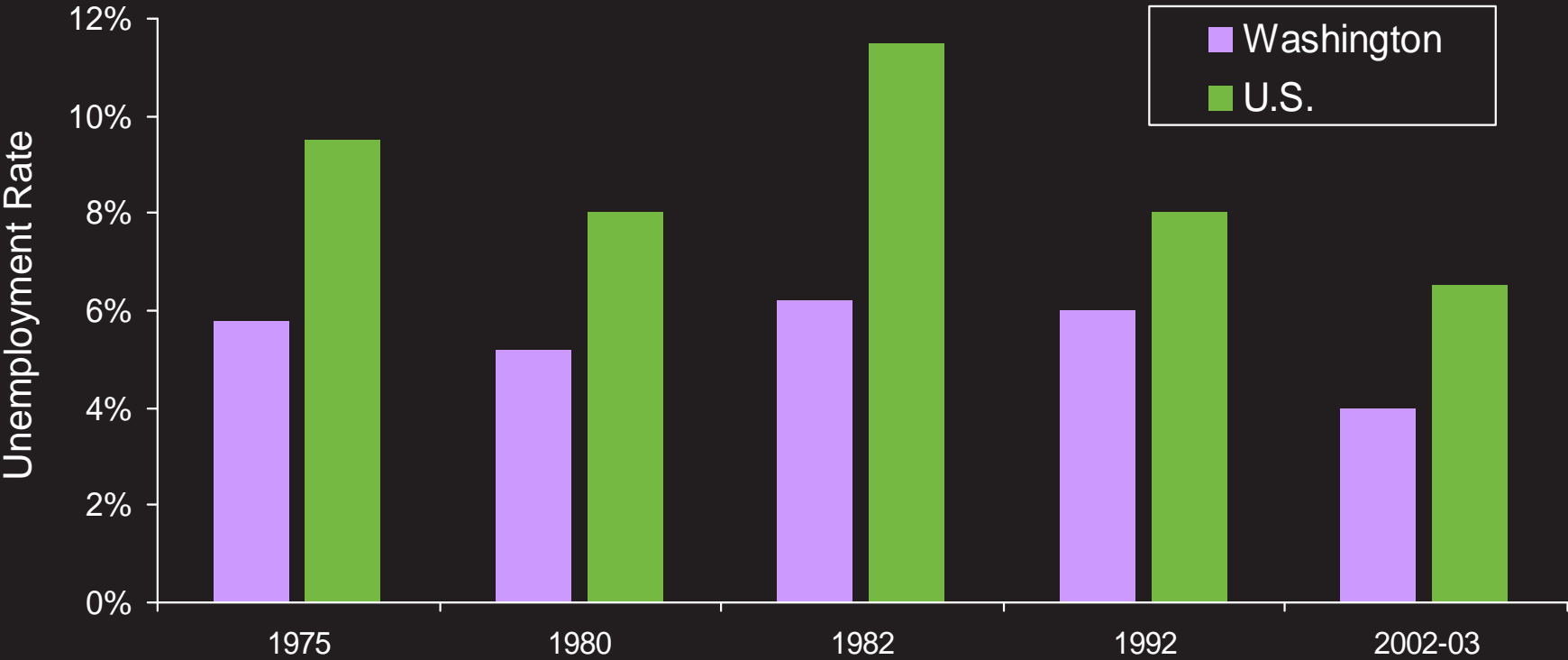


Source: Mortgage Bankers Association, Delta Associates; December 2008.



PEAK RECESSIONARY UNEMPLOYMENT RATES

WASHINGTON METRO AREA VS. U.S. AVERAGE

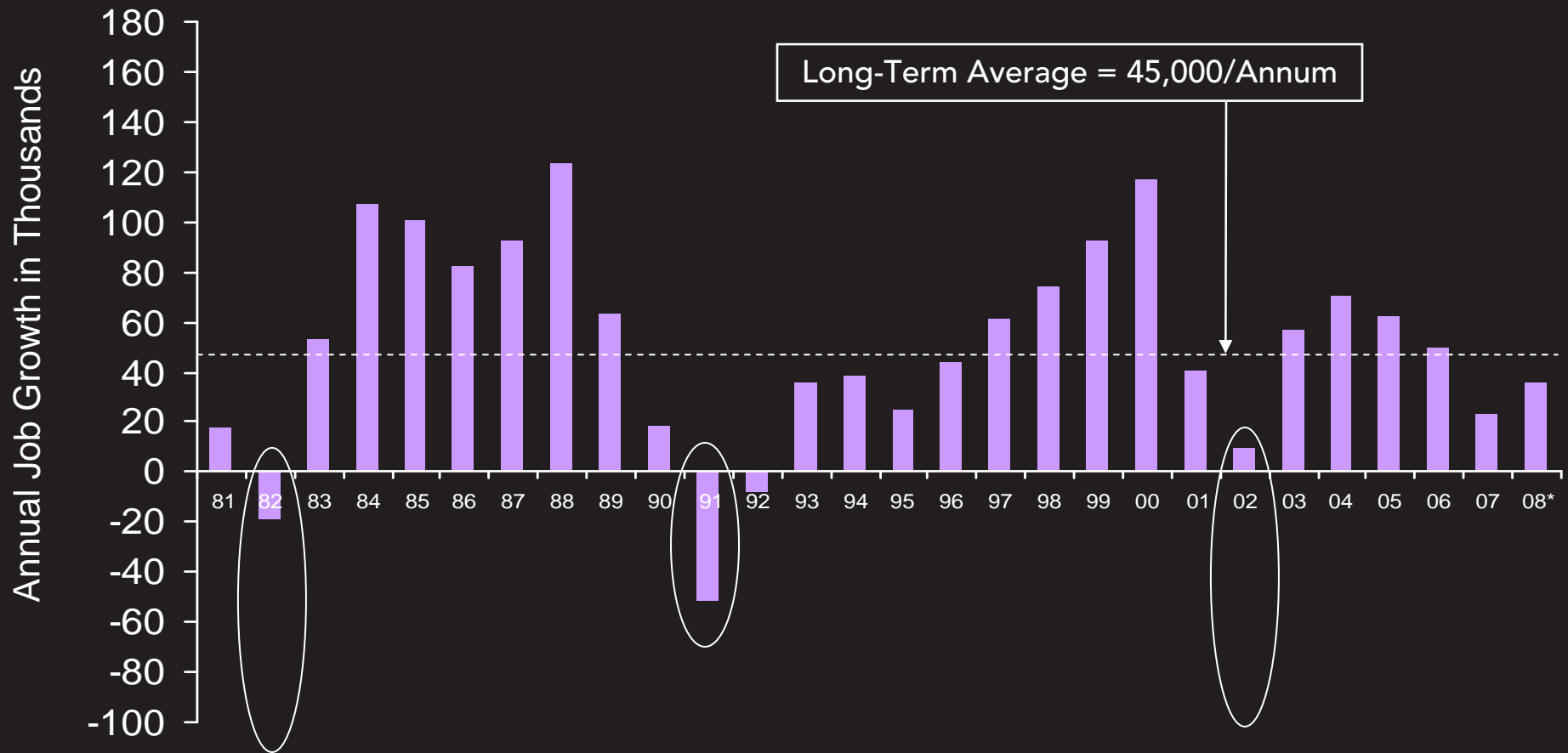


Source: Dr. Stephen Fuller, Delta Associates; December 2008.



PAYROLL JOB TRENDS

WASHINGTON METRO 1981 – OCTOBER 2008



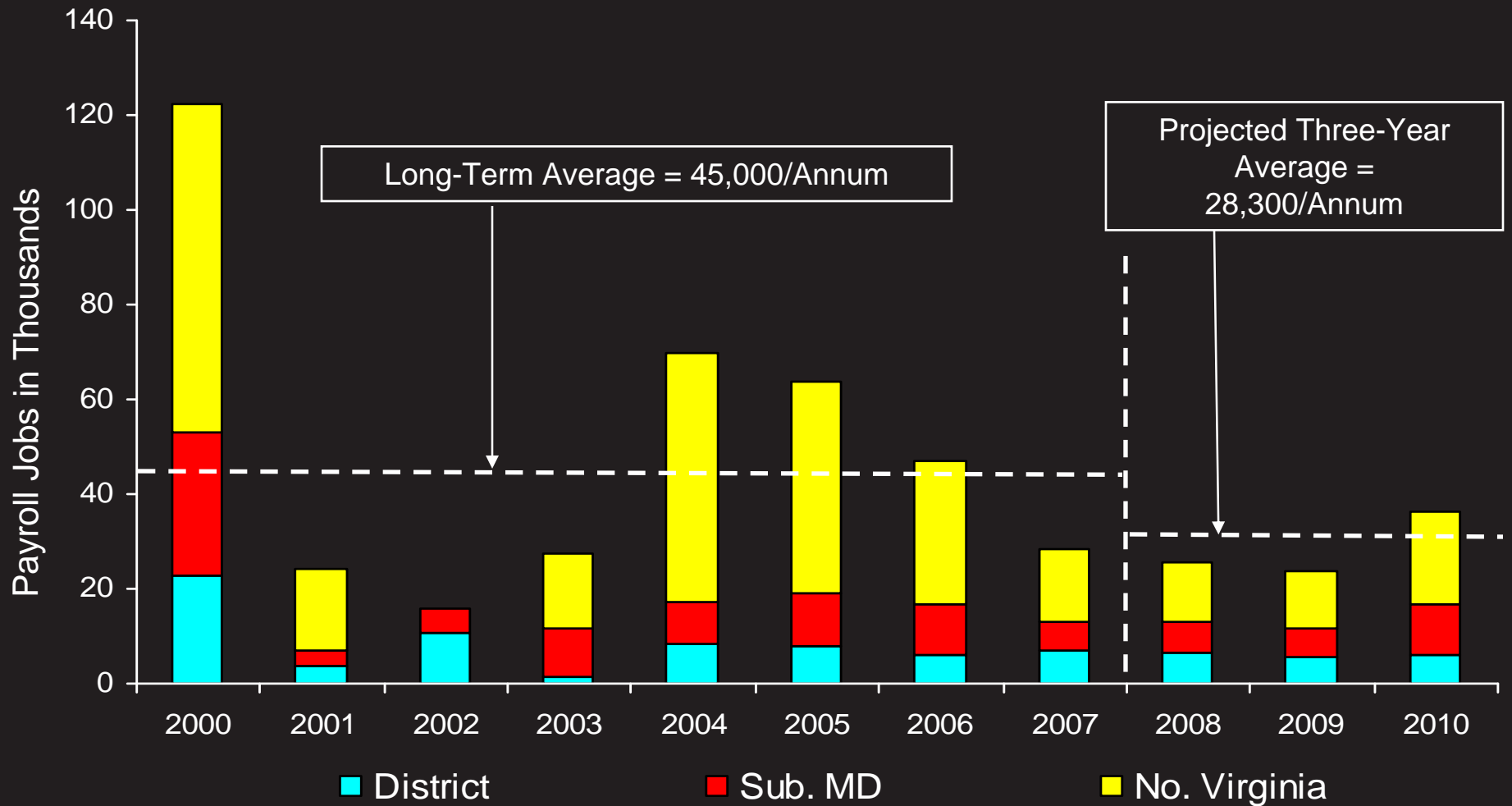
Source: Bureau of Labor Statistics, Delta Associates; December 2008.

*12 months ending October 2008.



PAYROLL JOB TRENDS AND FORECAST

WASHINGTON METRO AREA 2000 – 2010



Source: Dr. Stephen Fuller and Delta Associates; December 2008.



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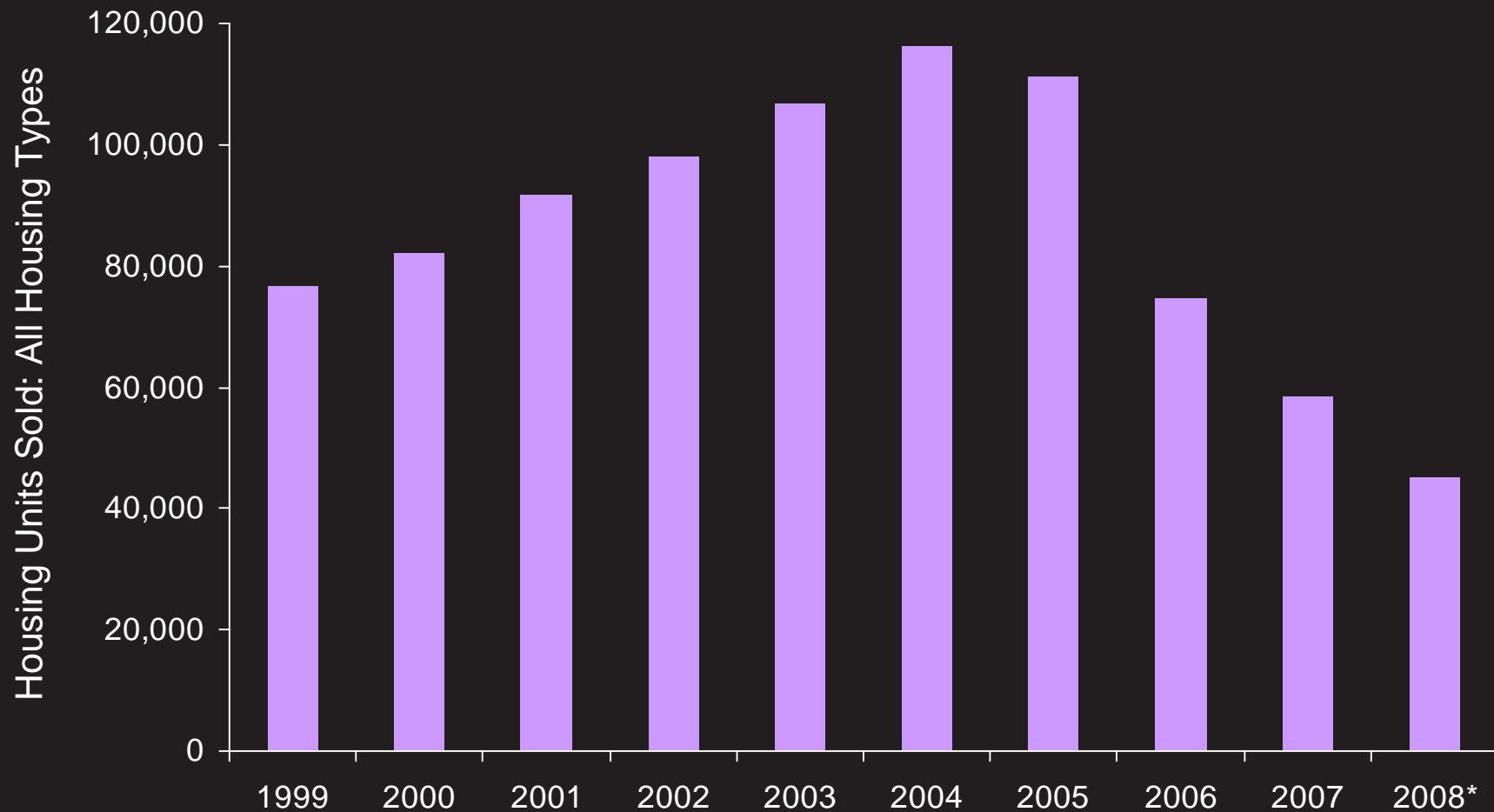


WASHINGTON
METRO
HOUSING
MARKET



RESALE VOLUME

WASHINGTON METRO AREA 1999 – 3rd QUARTER 2008



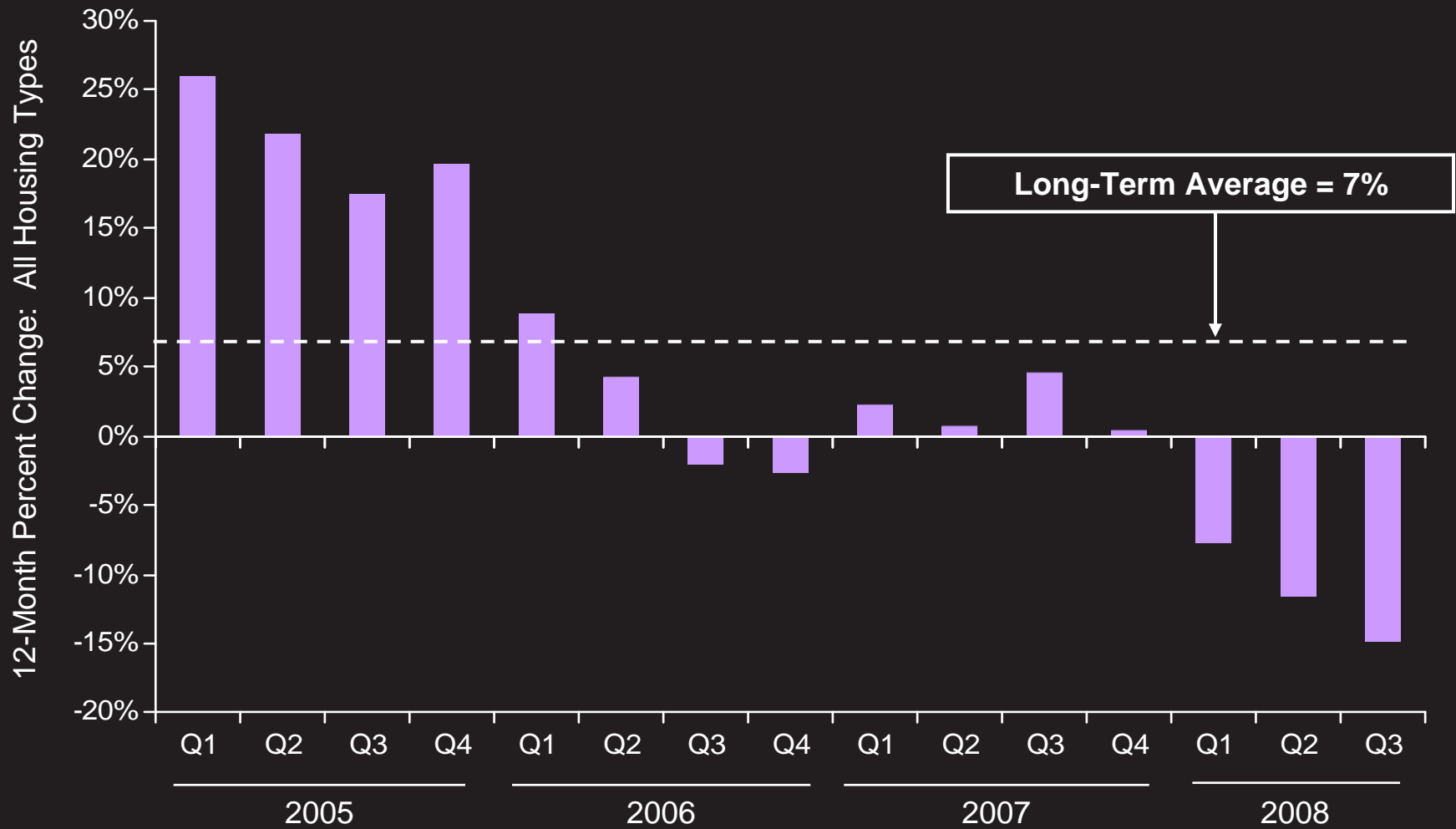
Source: MRIS, Delta Associates; December 2008.

*Through 3rd quarter 2008 annualized.



ANNUAL SALES PRICE CHANGE

WASHINGTON METRO AREA 2005 – 3rd QUARTER 2008

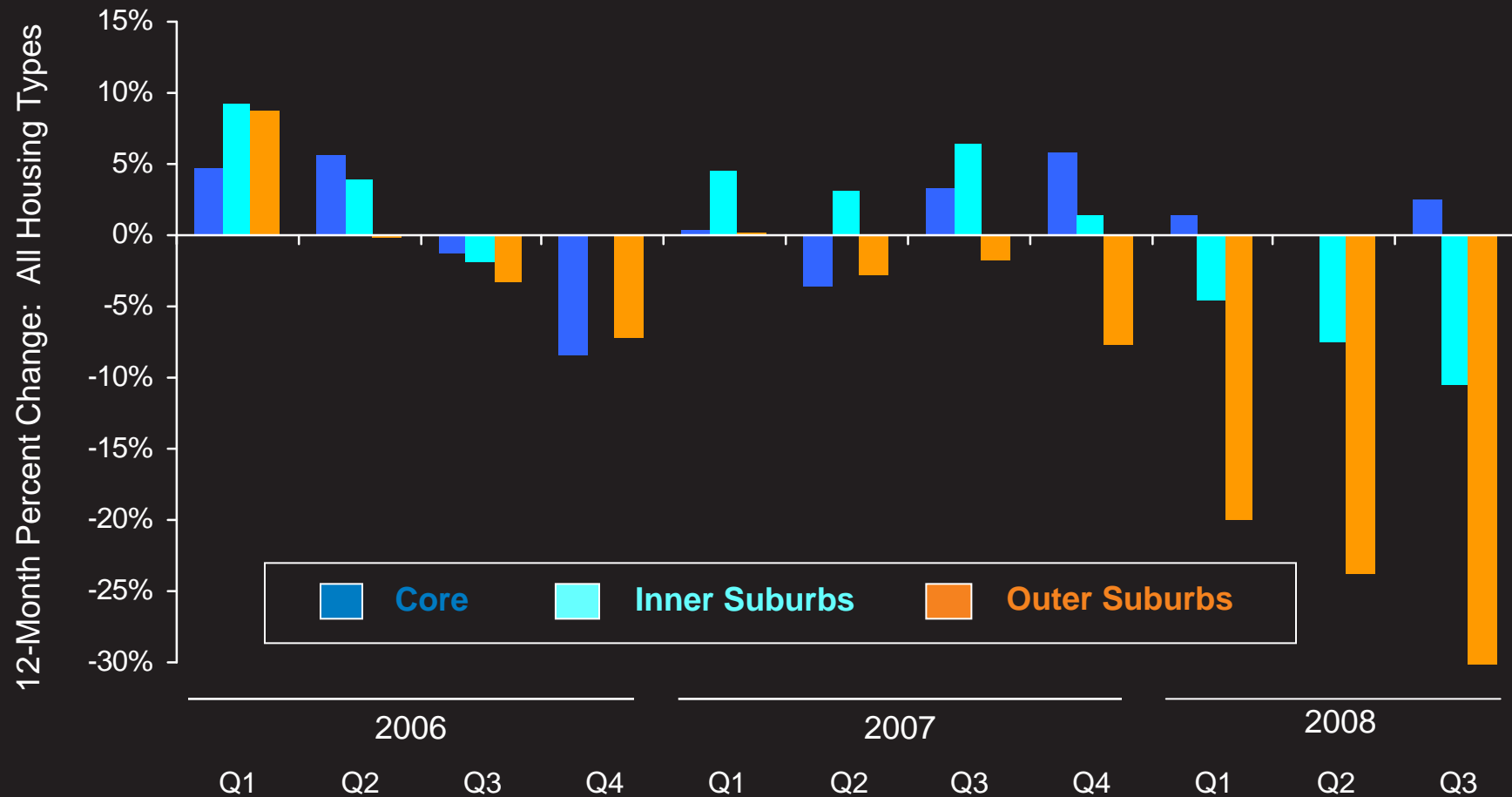


Source: MRIS, Delta Associates; December 2008.



ANNUAL SALES PRICE CHANGE

WASHINGTON METRO AREA 2006 – 3rd QUARTER 2008



Core Inner Suburbs Outer Suburbs

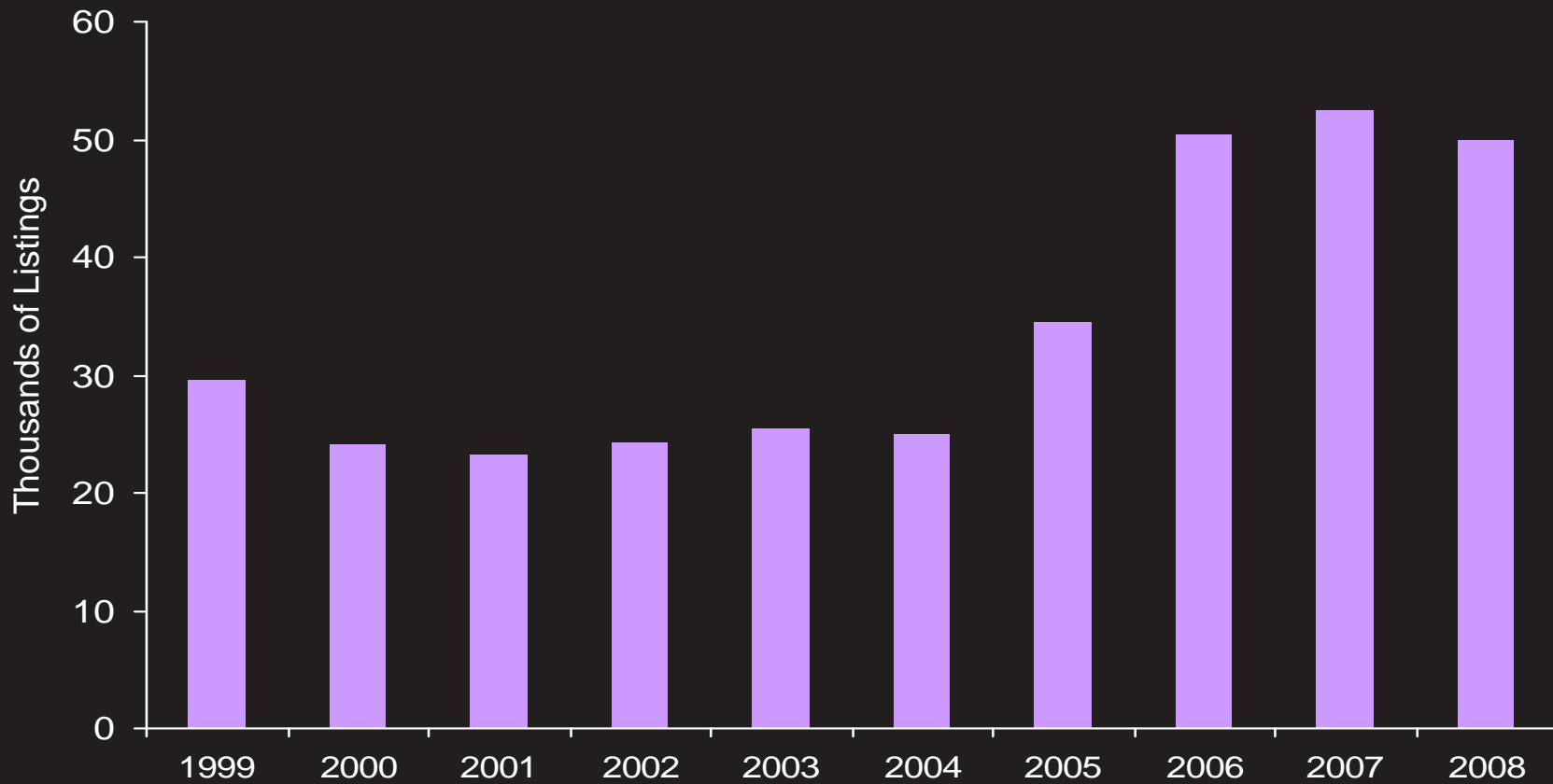
Core: DC, Arlington, Alexandria.
Inner: Fairfax, Montgomery, Prince George's.
Outer: Loudoun, Prince William, Frederick.

Source: MRIS, Delta Associates; December 2008.



TOTAL ACTIVE LISTINGS

WASHINGTON METRO AREA SEPTEMBER OF EACH YEAR



Source: John McClain, George Mason University, Delta Associates; December 2008.



HOUSING OUTLOOK

WASHINGTON METRO AREA 2009 – 2012

- **Inventory:**
 - Inventory stabilizing; better supply-demand balance inside the Beltway than outside the Beltway

- **Average Days on the Market:**
 - Up to 104 days, compared to the long-term average of 76 days

- **Prices and Volume Returning to Normal:**
 - Inside the Beltway: 2010
 - Outer Suburbs: 2012



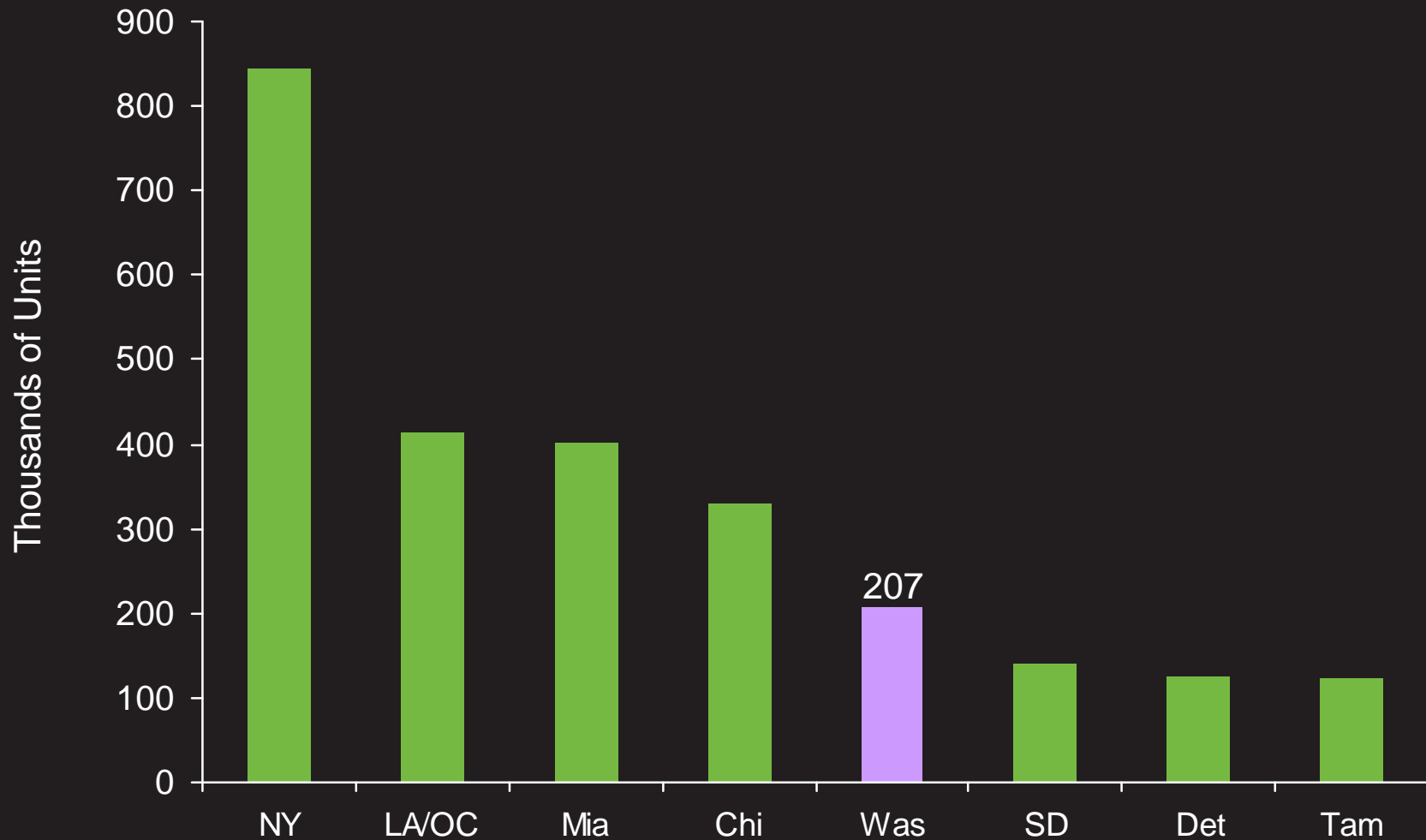
Third Quarter 2008 Update



WASHINGTON
METRO
CONDOMINIUM
MARKET



LARGEST METRO CONDO MARKETS

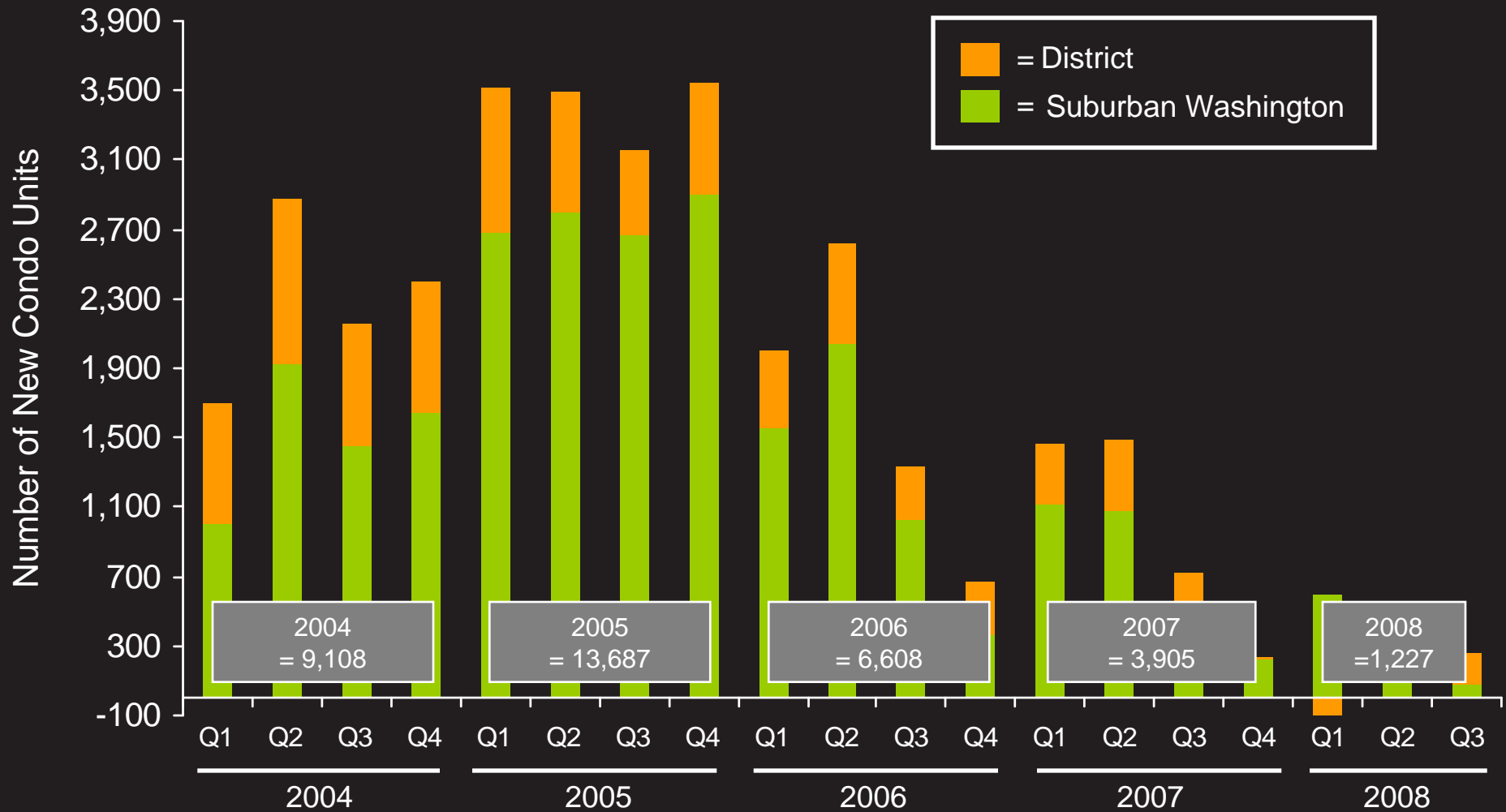


Source: US Census Bureau, Delta Associates; December 2008.



NEW UNIT SALES ACTIVITY

WASHINGTON METRO AREA 2004 – 3rd QUARTER 2008

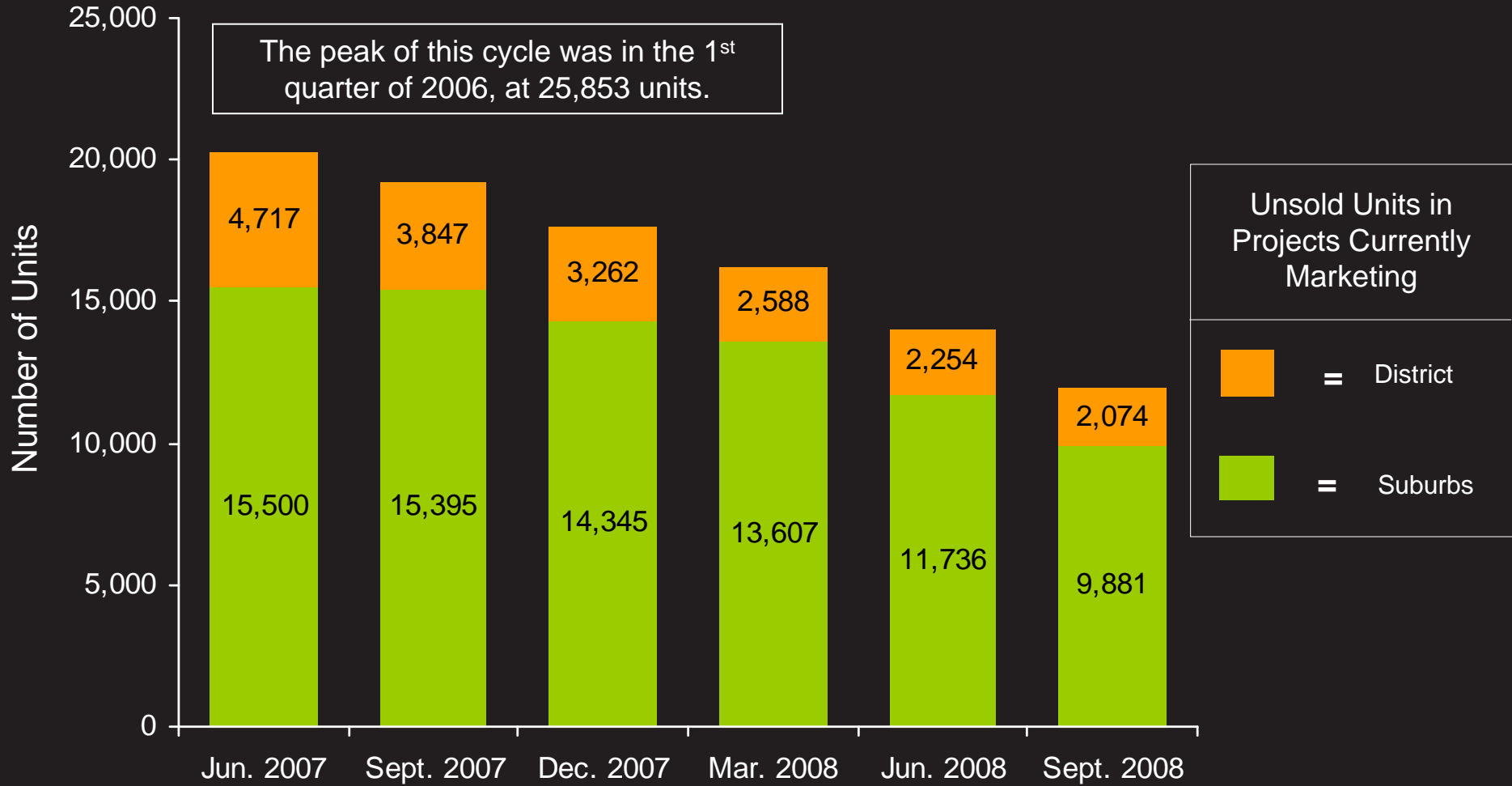


Source: Delta Associates; December 2008.



PIPELINE OF ACTIVELY MARKETING CONDO UNITS

WASHINGTON METRO AREA 2007 – 2008

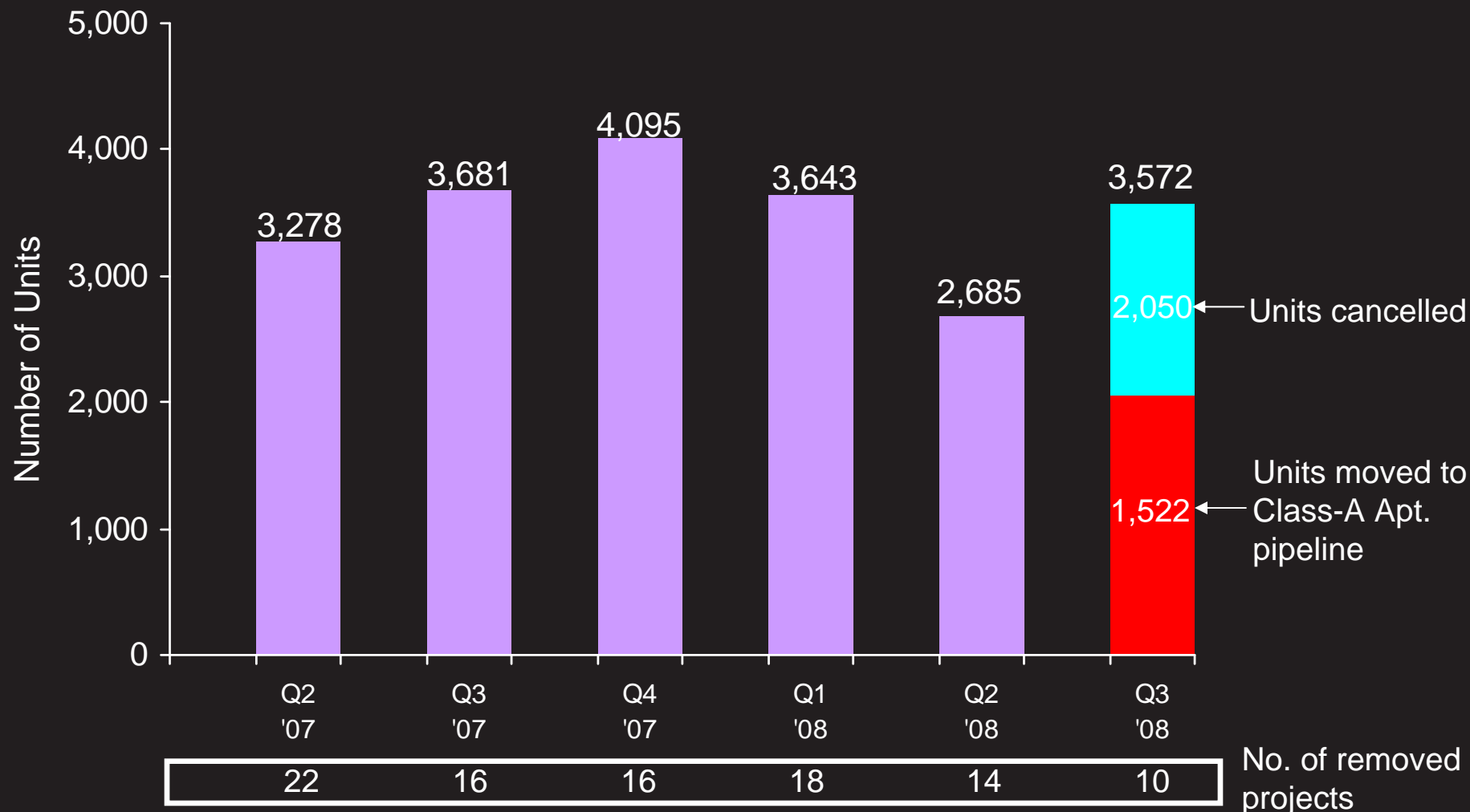


Source: Delta Associates; December 2008.



CONDO DEVELOPMENT PIPELINE REMOVALS

WASHINGTON METRO AREA THROUGH 3rd QUARTER 2008

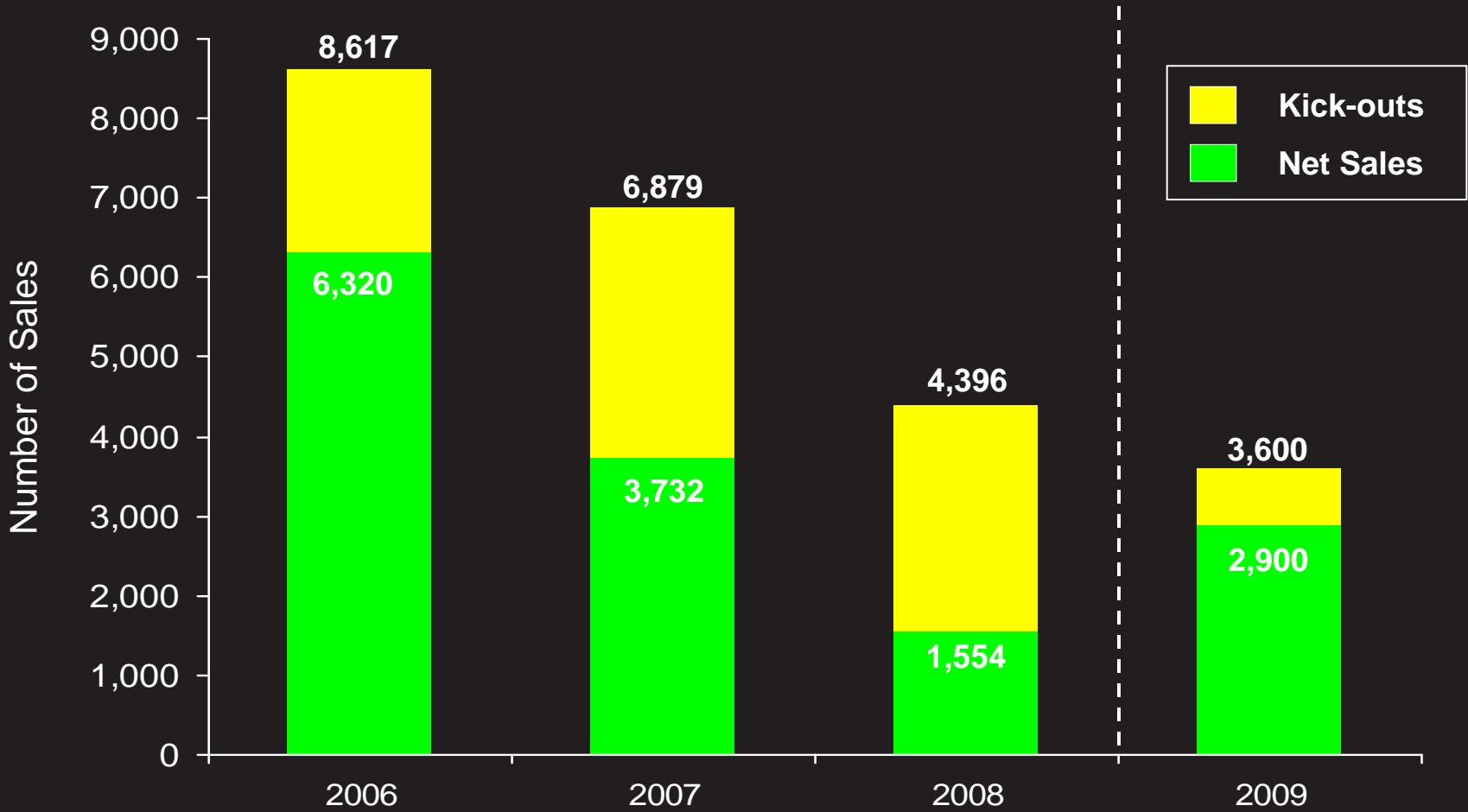


Source: Delta Associates; December 2008.



NET SALES VS. GROSS SALES

WASHINGTON METRO AREA 2006 – 2009



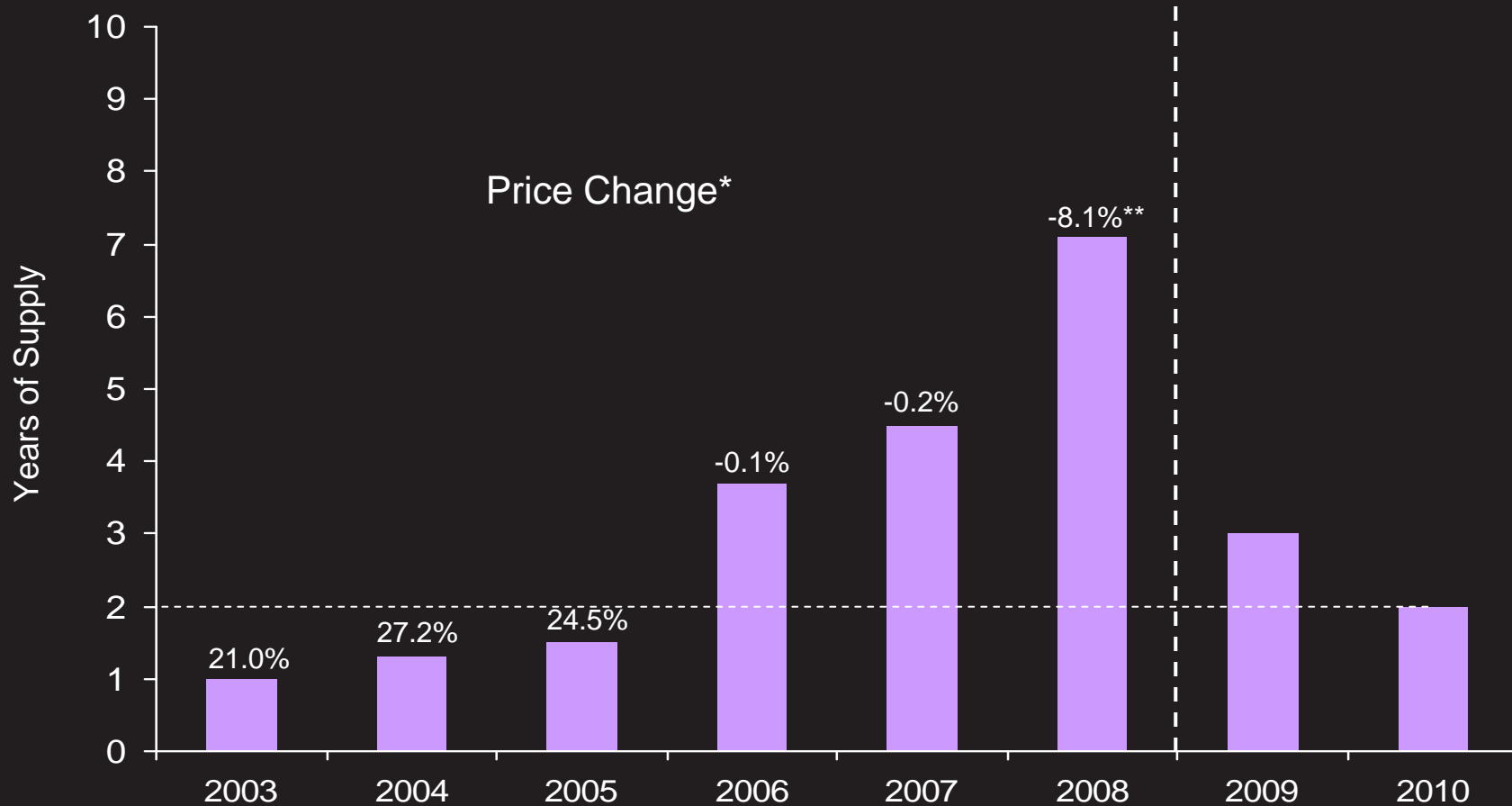
Source: McWilliams | Ballard, Delta Associates; December 2008.

Note: Excludes Howard & Anne Arundel Counties



YEARS OF CONDOMINIUM SUPPLY

WASHINGTON METRO AREA 2003 – 2010



Source: Delta Associates; December 2008.

*Resales

**12 months ending September 2008.



Third Quarter 2008 Update

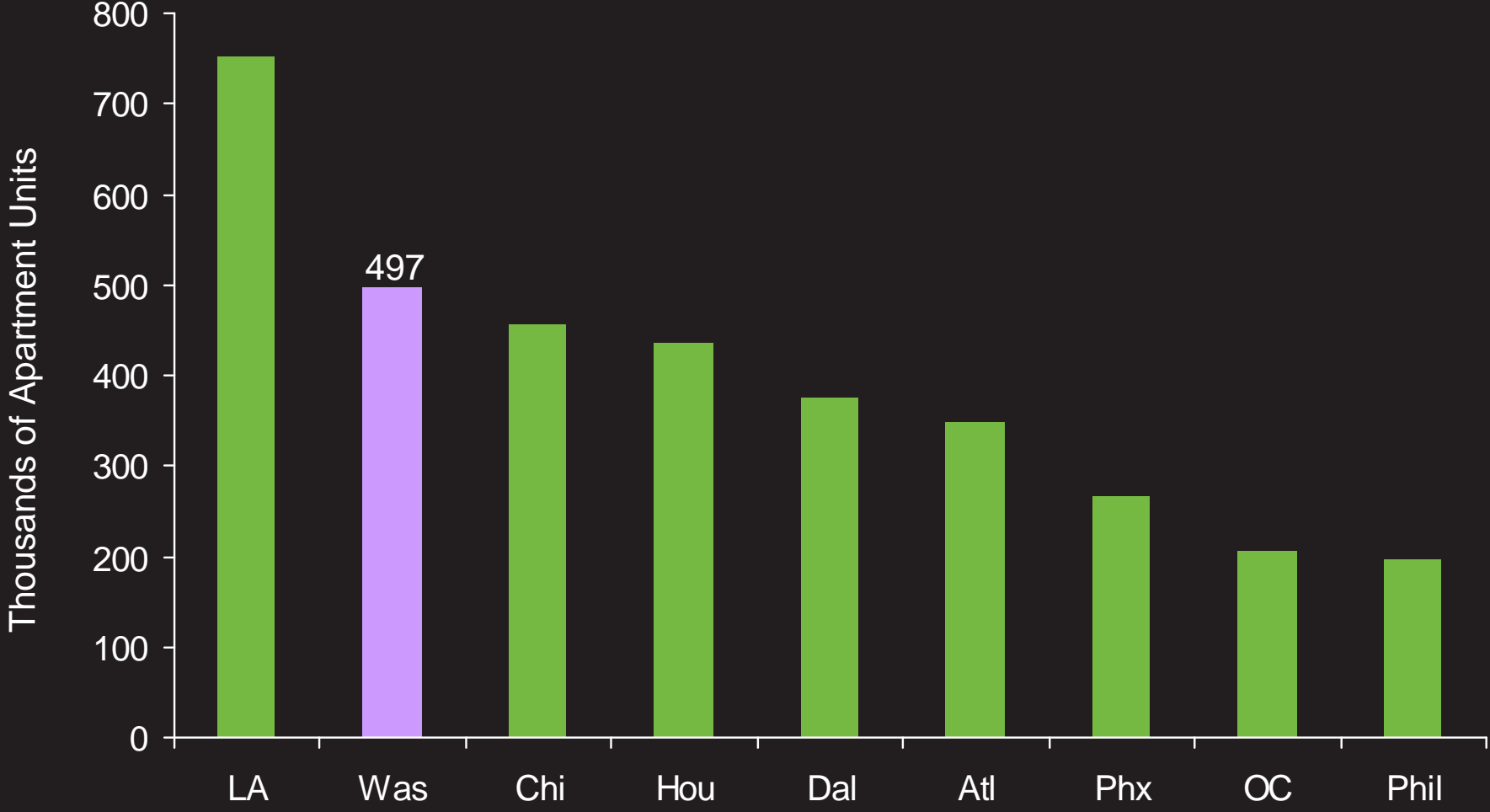


WASHINGTON
METRO
APARTMENT
MARKET



LARGEST METRO APARTMENT MARKETS

2008



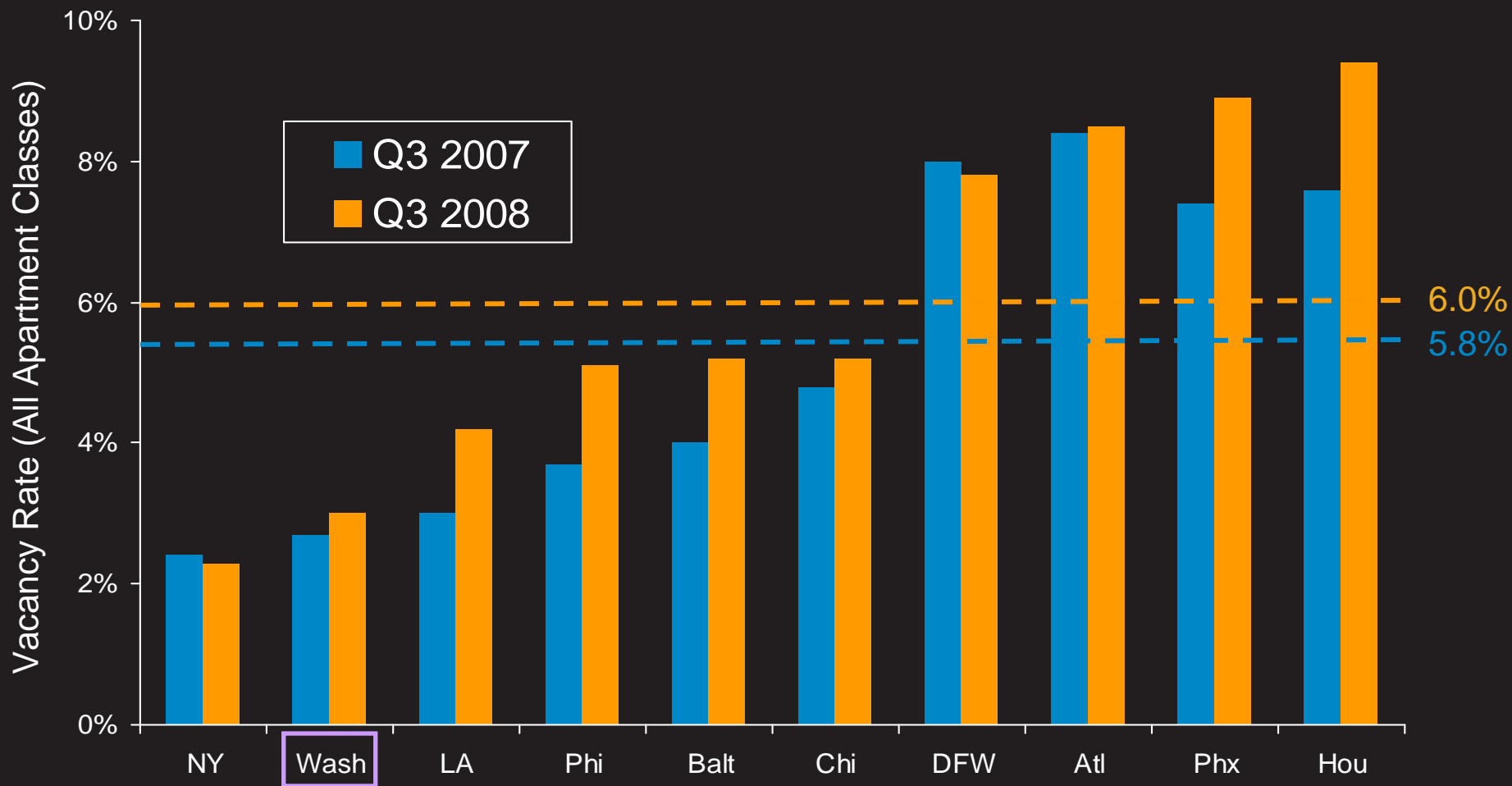
Source: REIS, Delta Associates; December 2008.

Note: Excludes NYC and Includes only those units in projects of 20 or more units.



LOWEST APARTMENT VACANCY

SELECT METRO AREAS 2007 VS. 2008

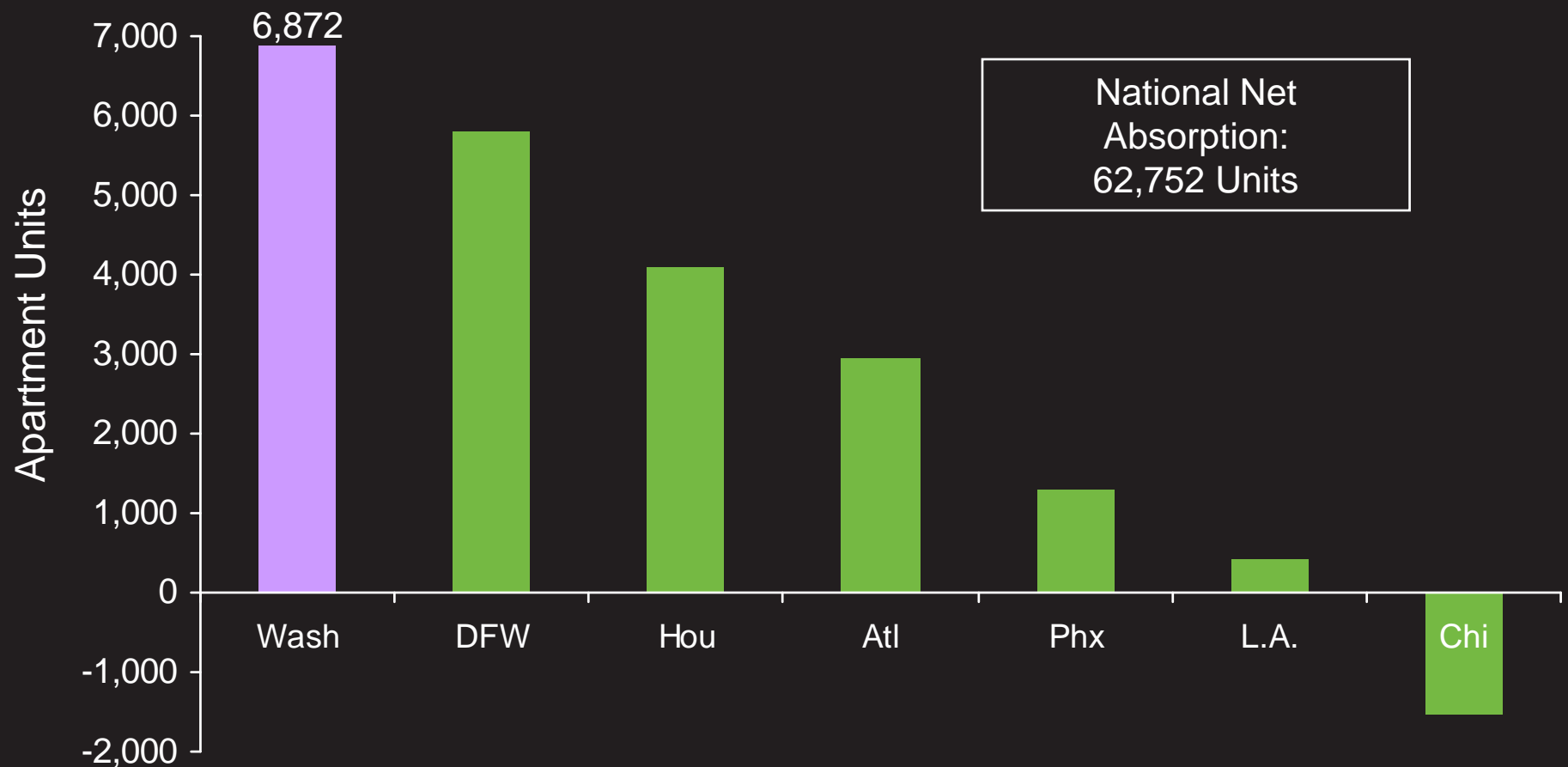


Source: REIS, Delta Associates; December 2008.



CLASS A APARTMENT NET ABSORPTION

SELECT METRO AREAS 12 MONTHS ENDING SEPTEMBER 2008

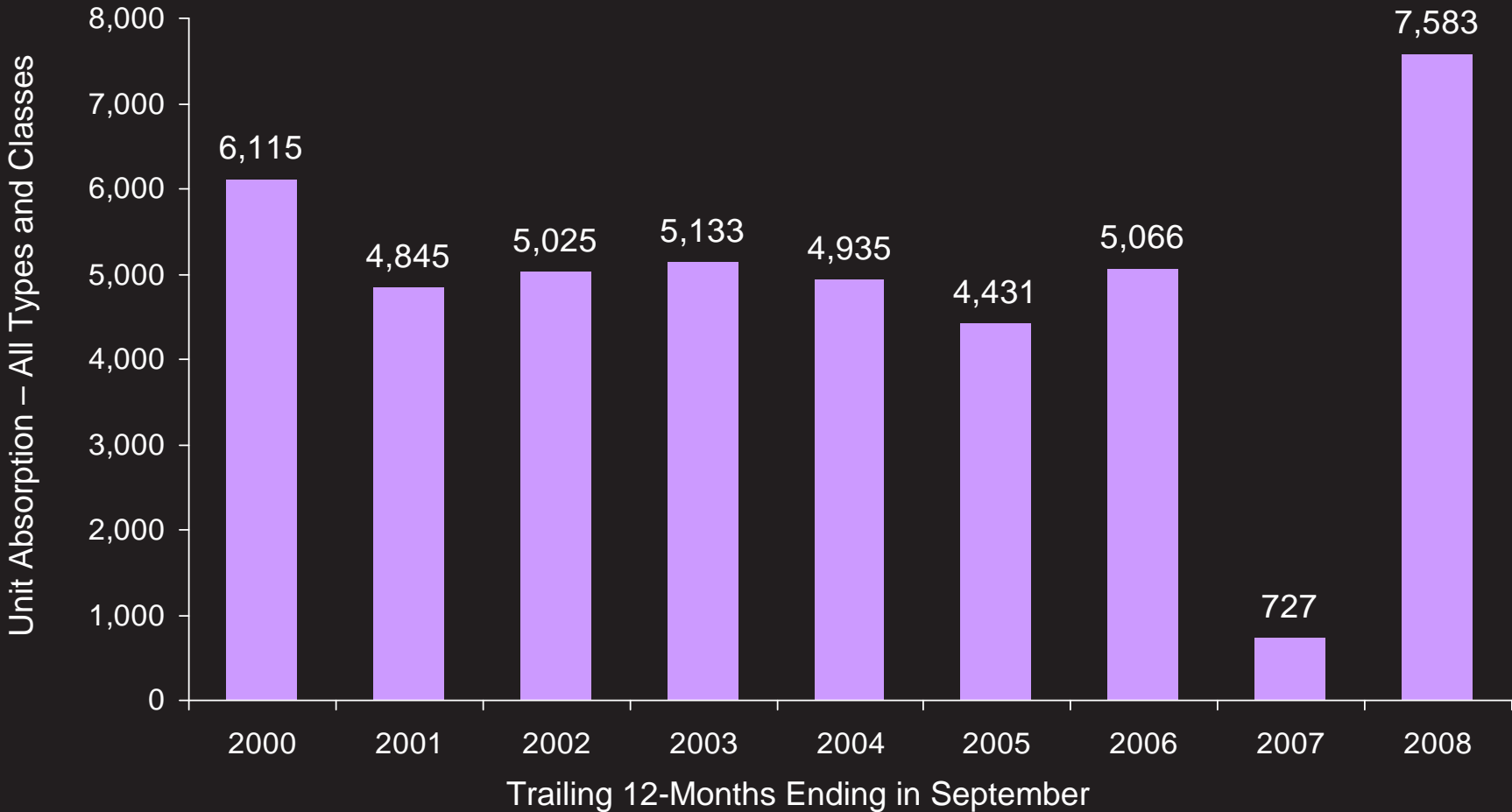


Source: REIS, Delta Associates; December 2008.



NET APARTMENT UNIT ABSORPTION

WASHINGTON METRO AREA

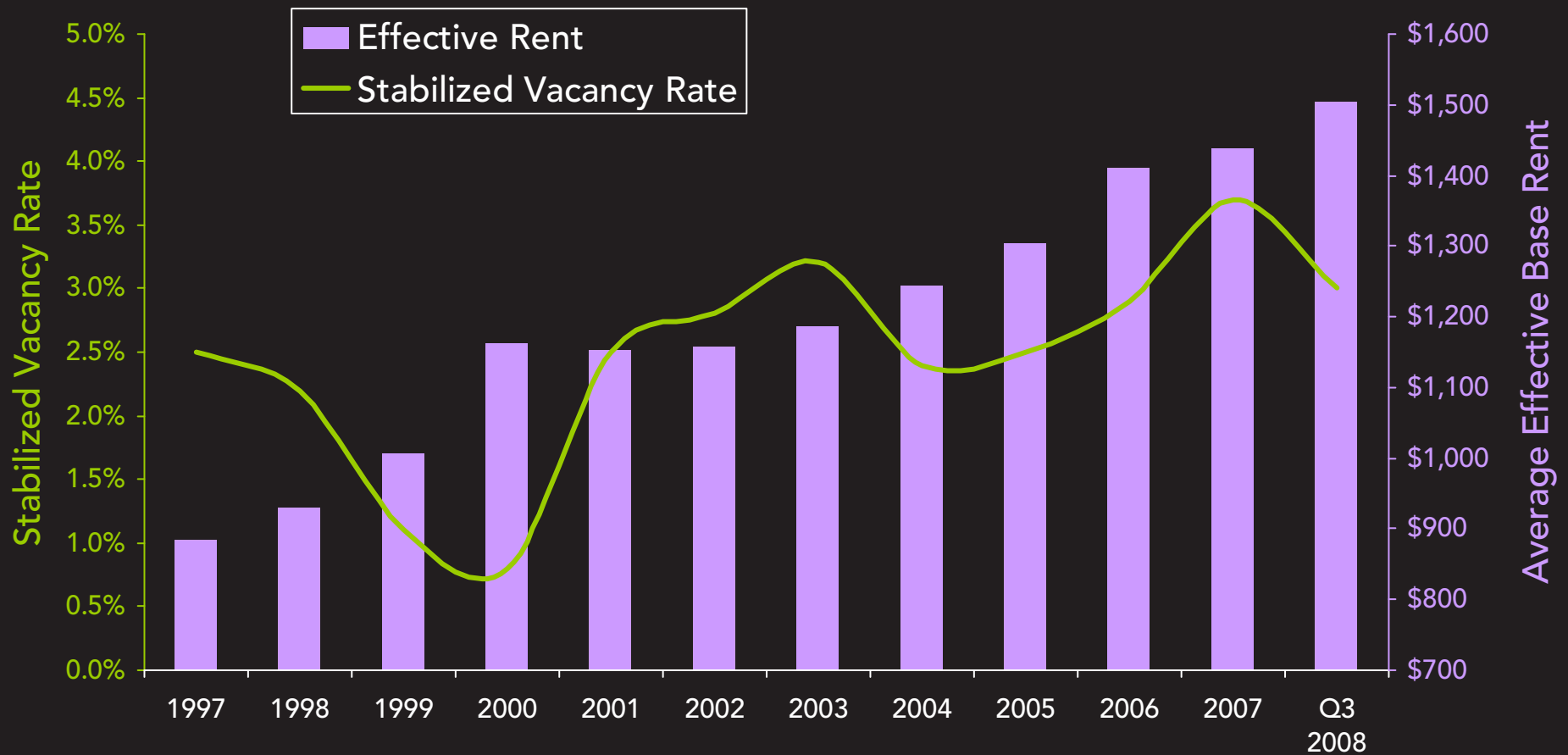


Source: Delta Associates; December 2008.



EFFECTIVE RENT & VACANCY RATE

WASHINGTON METRO AREA 1997 – 3rd QUARTER 2008



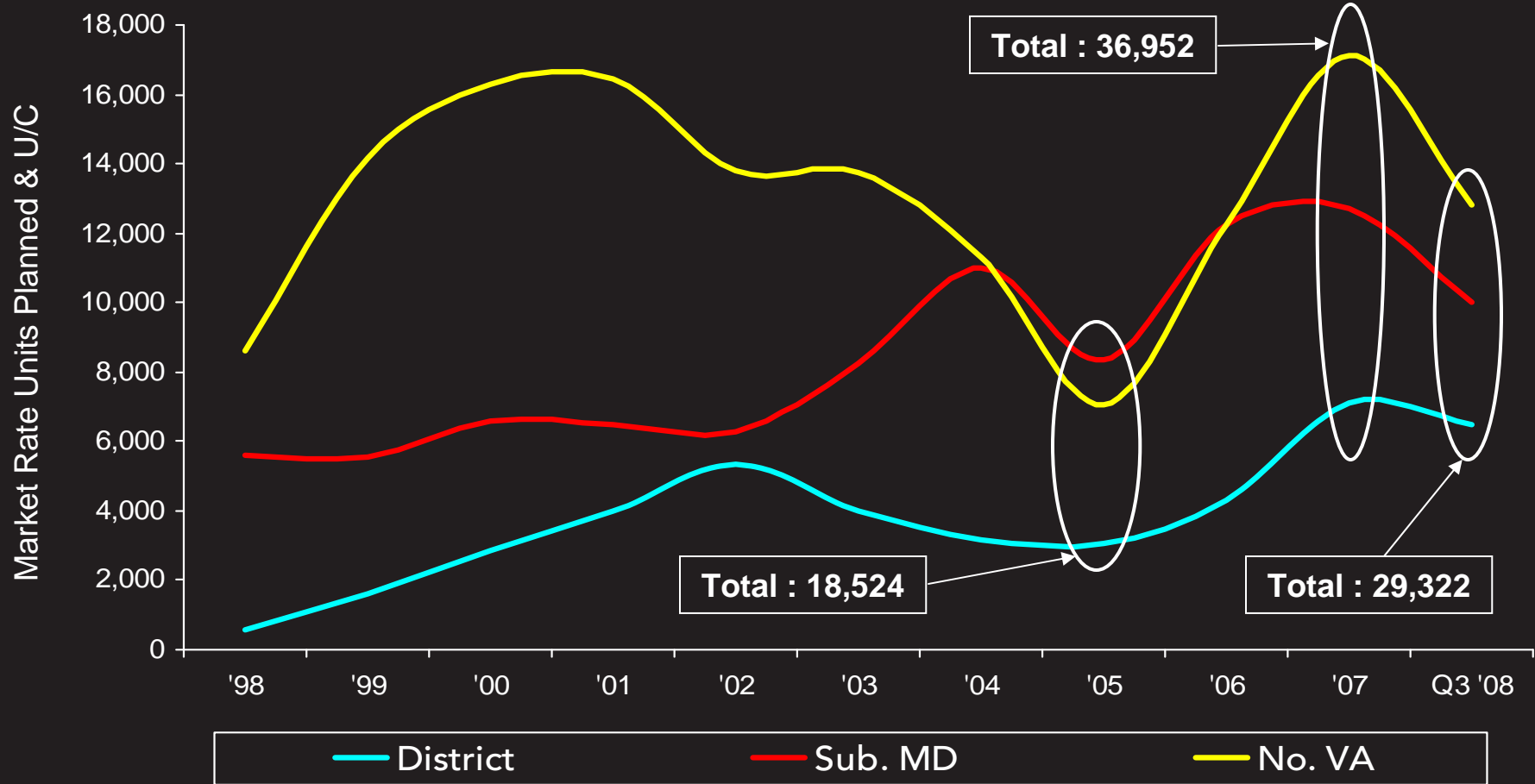
← 4.5% / yr. Rent Growth →

Source: Delta Associates; December 2008.



PIPELINE ACTIVITY SINCE 1998

WASHINGTON METRO AREA 1998 – 3rd QUARTER 2008

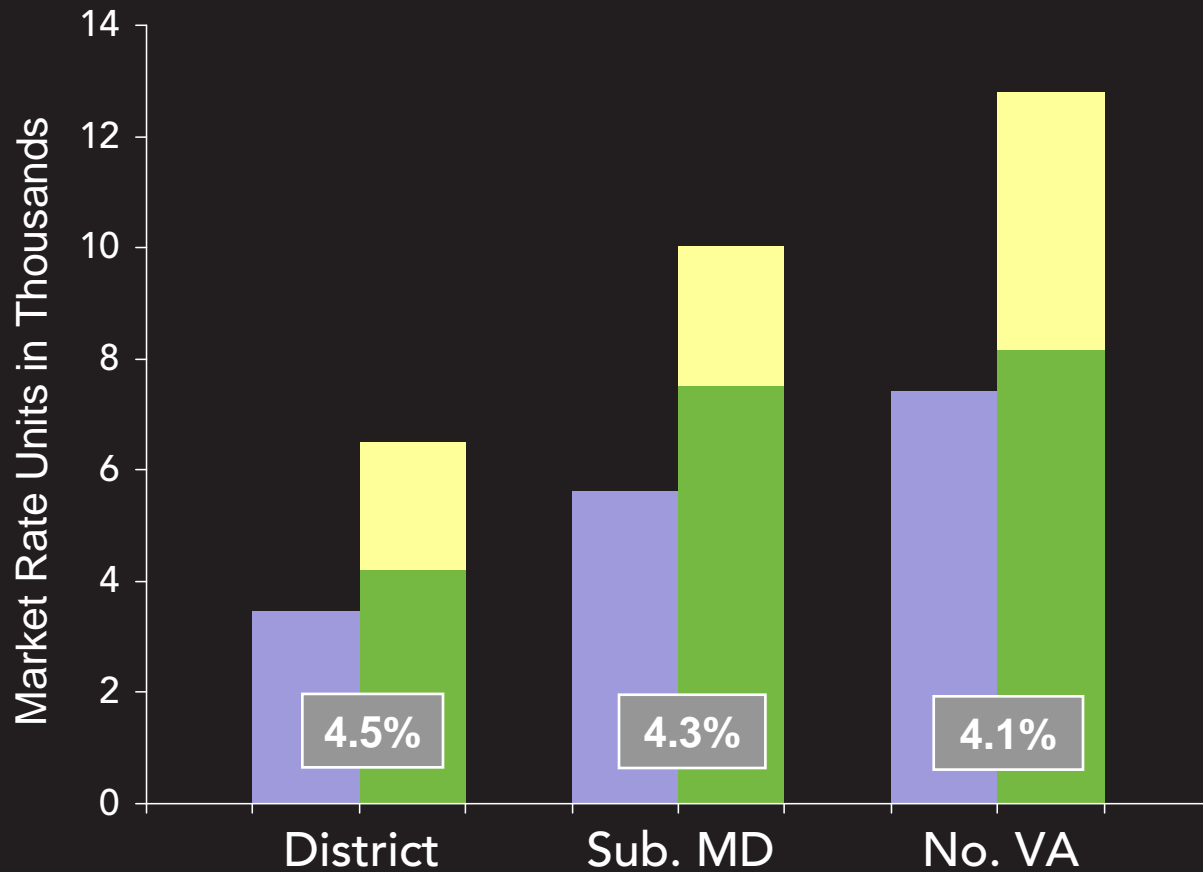


Source: Delta Associates; December 2008.



CLASS A APARTMENT DEMAND & DELIVERIES

WASHINGTON METRO AREA 36 MONTHS ENDING SEPTEMBER 2011



% = Stabilized Vacancy Rate at 9/2011
Estimated Stabilized Vacancy Rate at 9/2011: 4.2% Region-Wide

Demand

■ = 6,000/Yr. = 18,000

Deliveries

■ = Planned and may deliver by 9/2011: 9,440 units

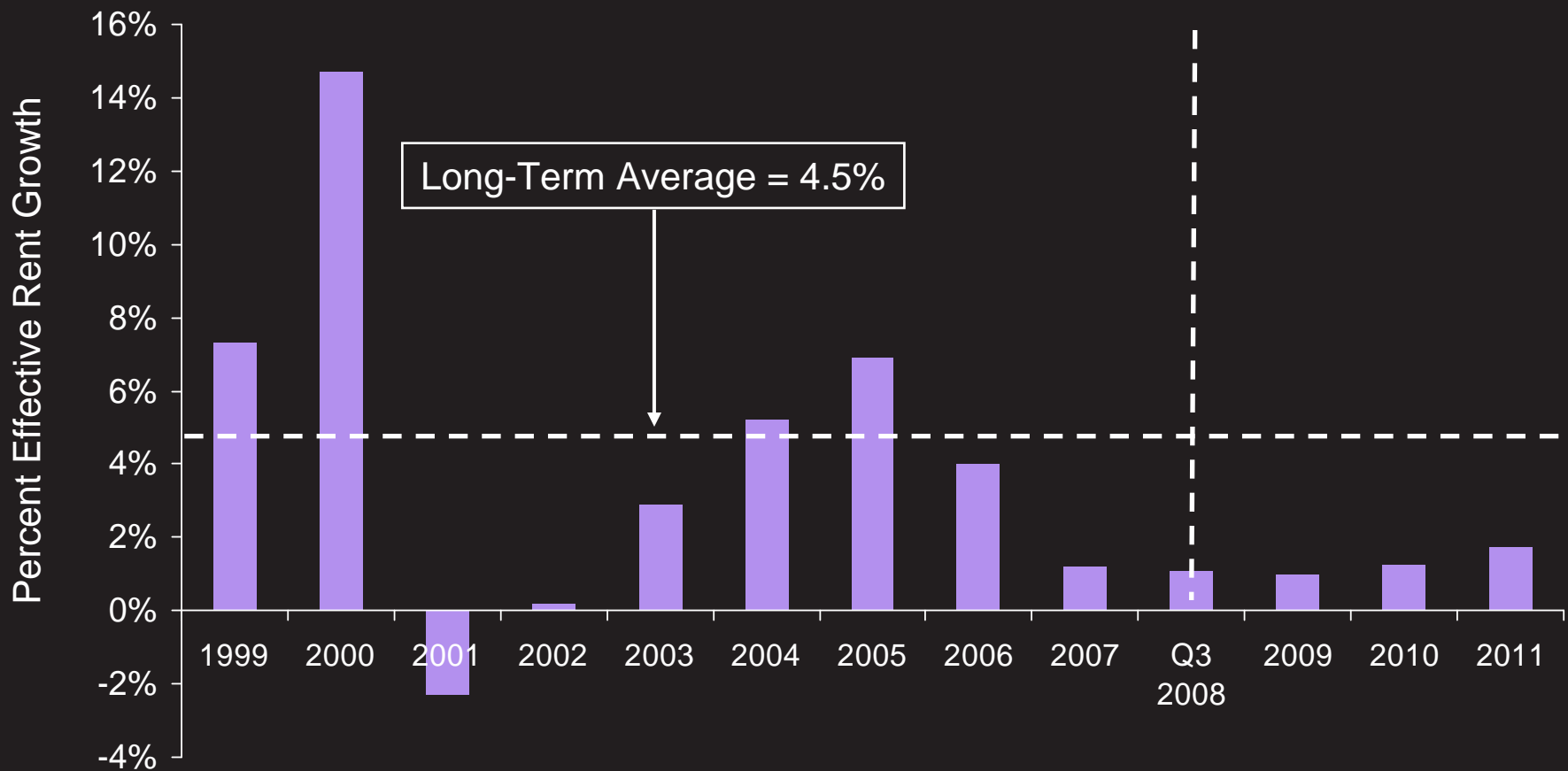
■ = U/C: 19,882 units

Total = 29,322 units



CLASS A APARTMENT RENT GROWTH PER YEAR

WASHINGTON METRO AREA 1999 – 2011



Source: Delta Associates; December 2008.



Third Quarter 2008 Update

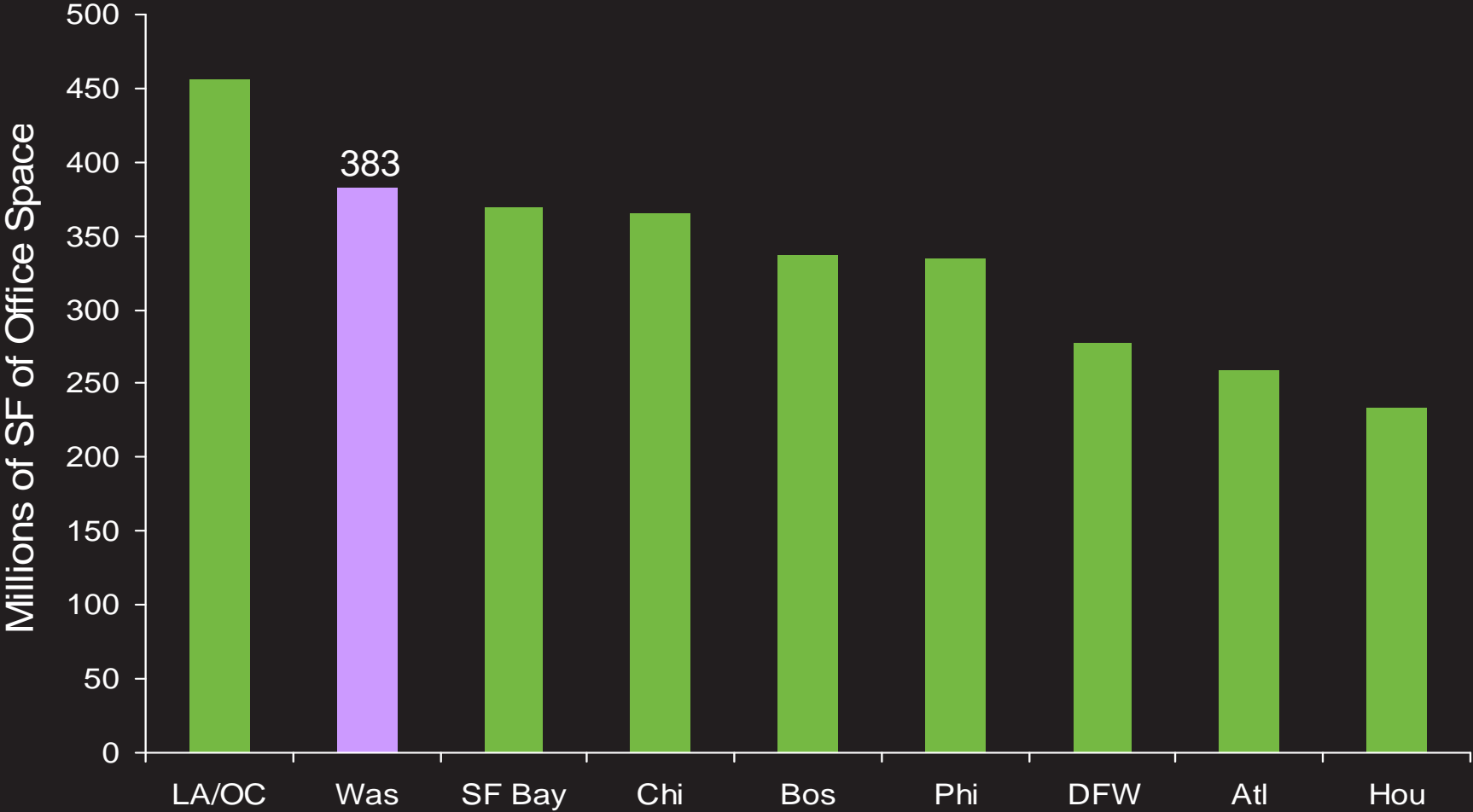


WASHINGTON
METRO
OFFICE
MARKET



LARGEST U.S. OFFICE MARKETS

2008



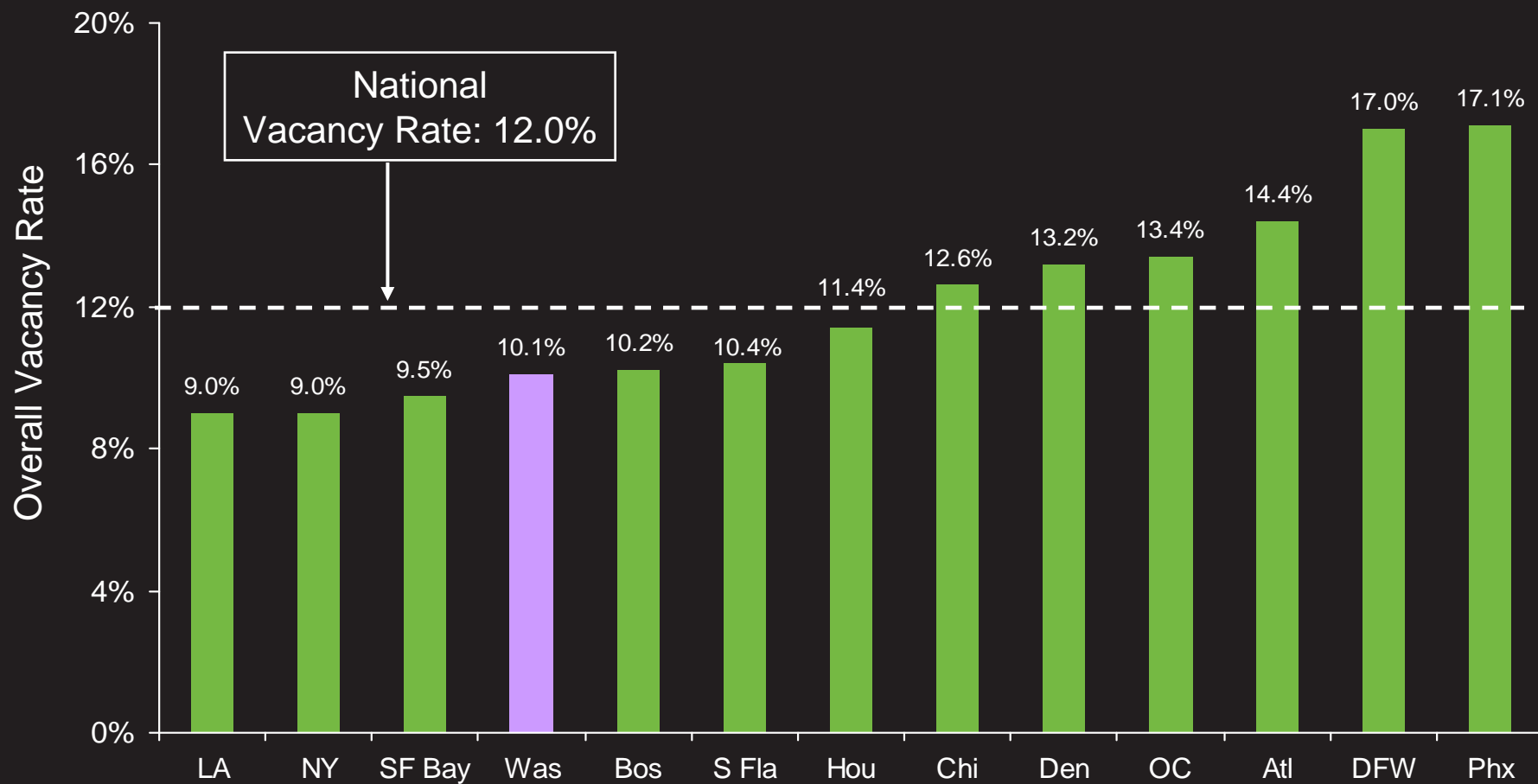
Source: CoStar, Delta Associates; December 2008.

Note: Excludes New York at 982 million SF



OFFICE VACANCY RATES

SELECT METRO AREAS 3RD QUARTER 2008

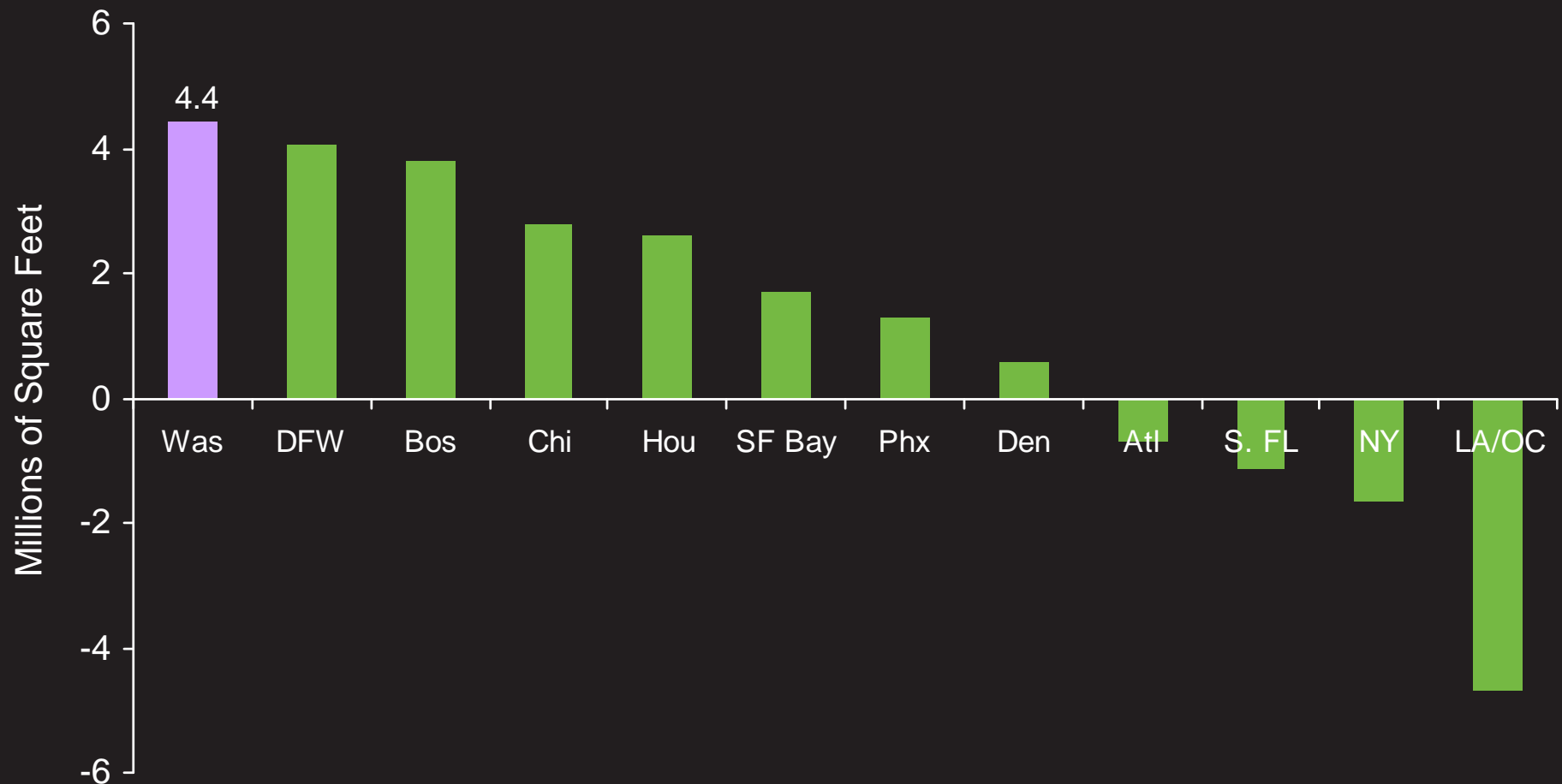


Source: CoStar, Delta Associates; December 2008.



OFFICE NET ABSORPTION

SELECT METRO AREAS JANUARY – SEPTEMBER 2008, ANNUALIZED

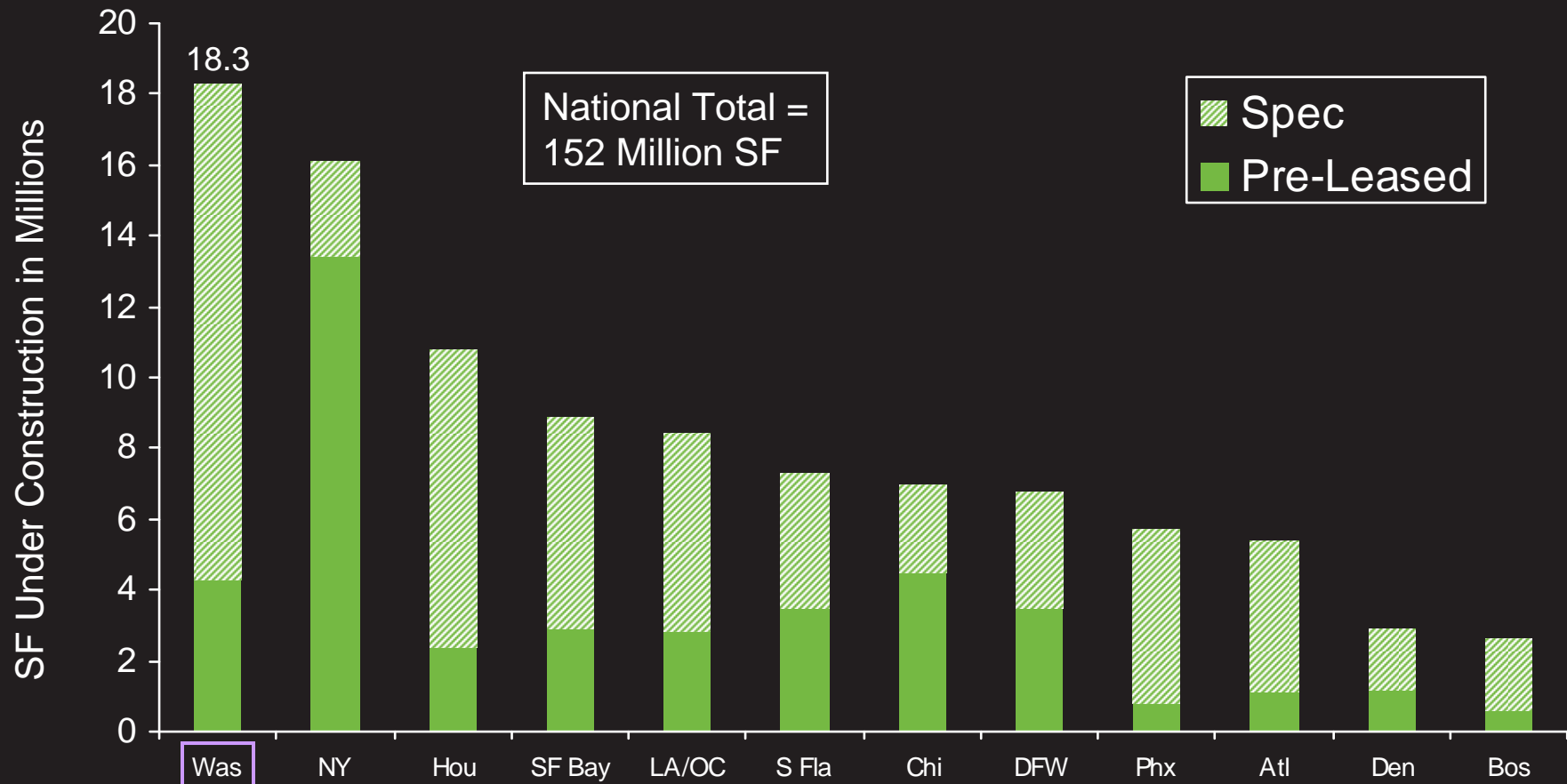


Source: CoStar, Delta Associates; December 2008.



OFFICE SPACE UNDER CONSTRUCTION

SELECT METRO AREAS SEPTEMBER 2008

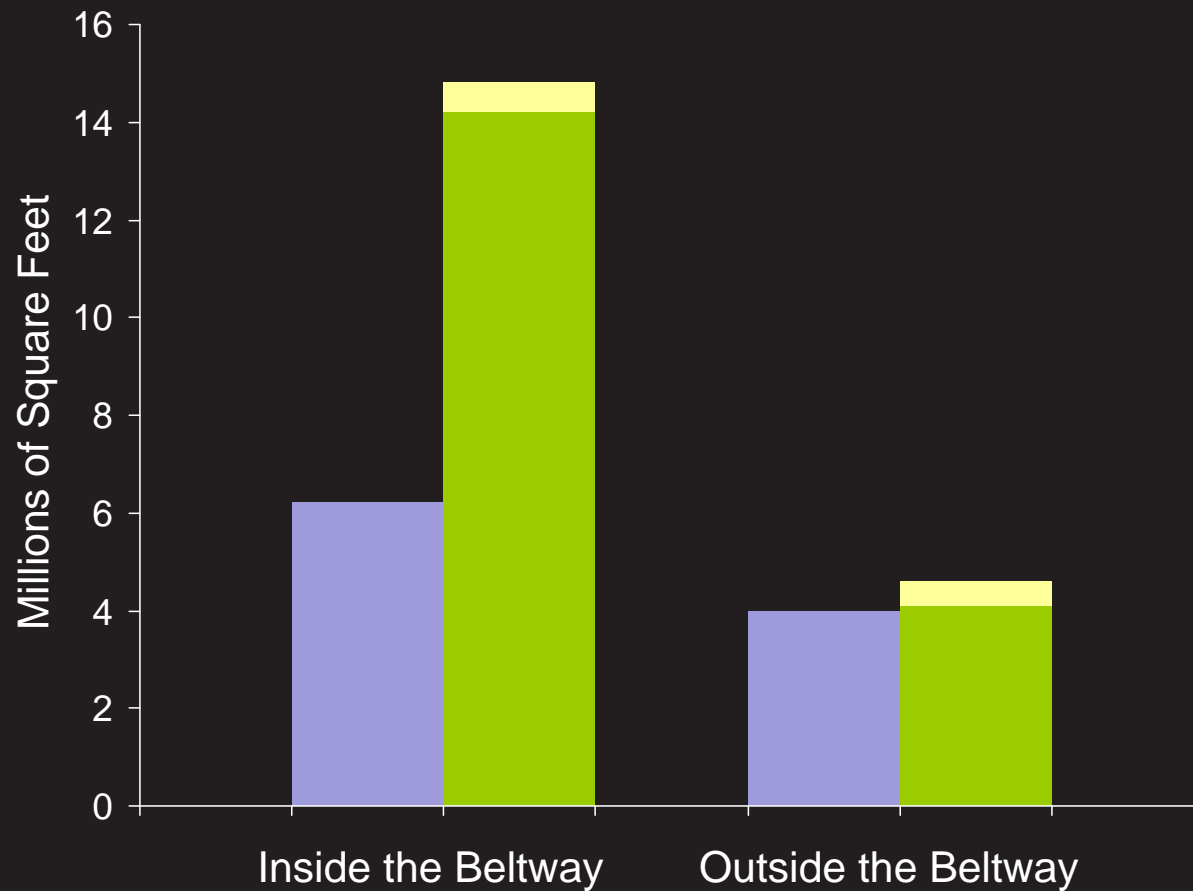


Source: CoStar, Delta Associates; December 2008.



OFFICE SPACE DEMAND & DELIVERIES

WASHINGTON METRO AREA 24 MONTHS ENDING SEPTEMBER 2010



Demand

■ = 10.2 million SF

Deliveries

■ = Planned and may deliver by 9/10: 1.1 MSF

■ = U/C or U/R: 18.3 million SF

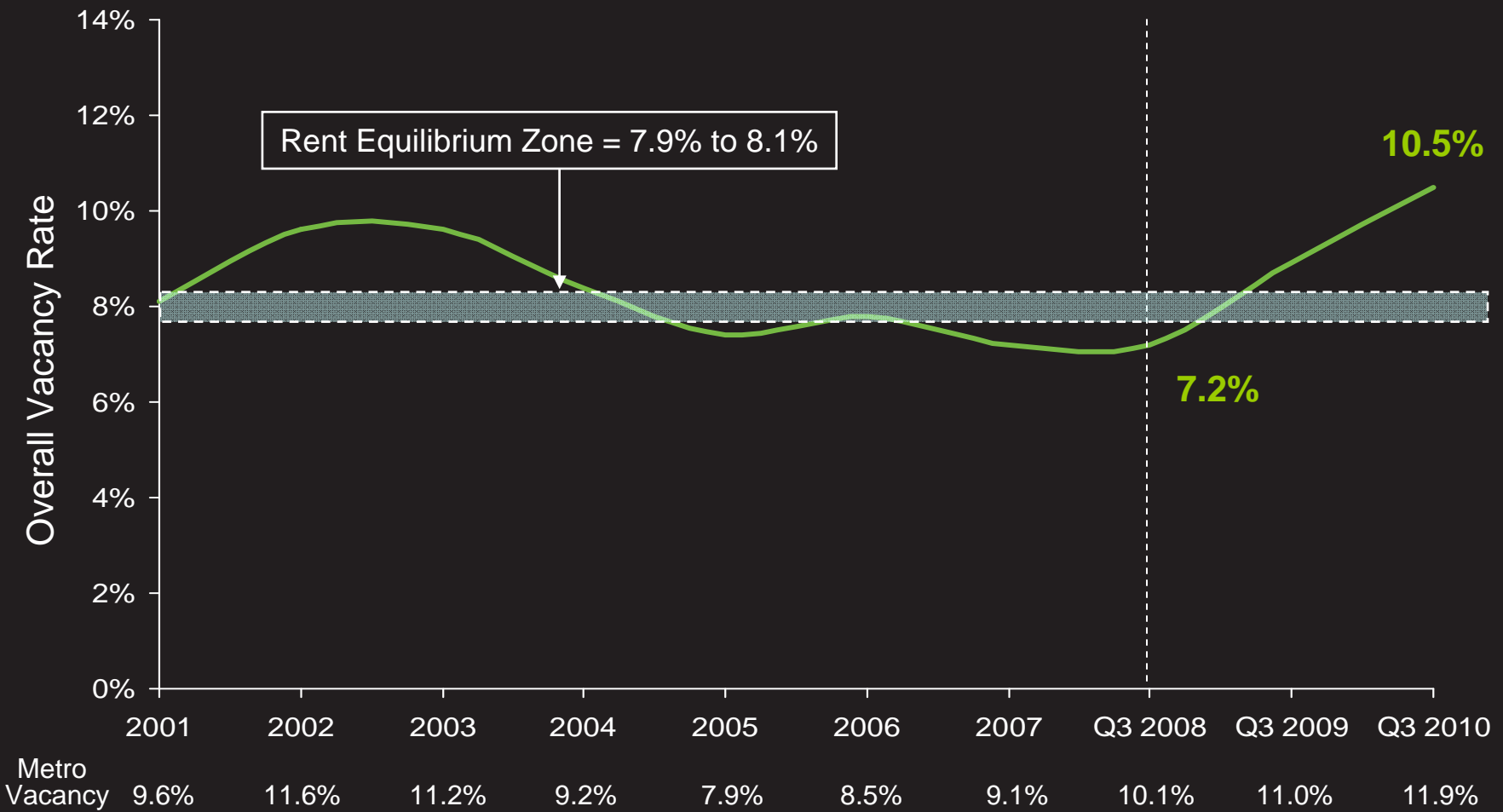
Total = 19.4 million SF

Source: CoStar, Delta Associates; December 2008.



OFFICE VACANCY RATES

INSIDE THE BELTWAY 2001 – SEPTEMBER 2010

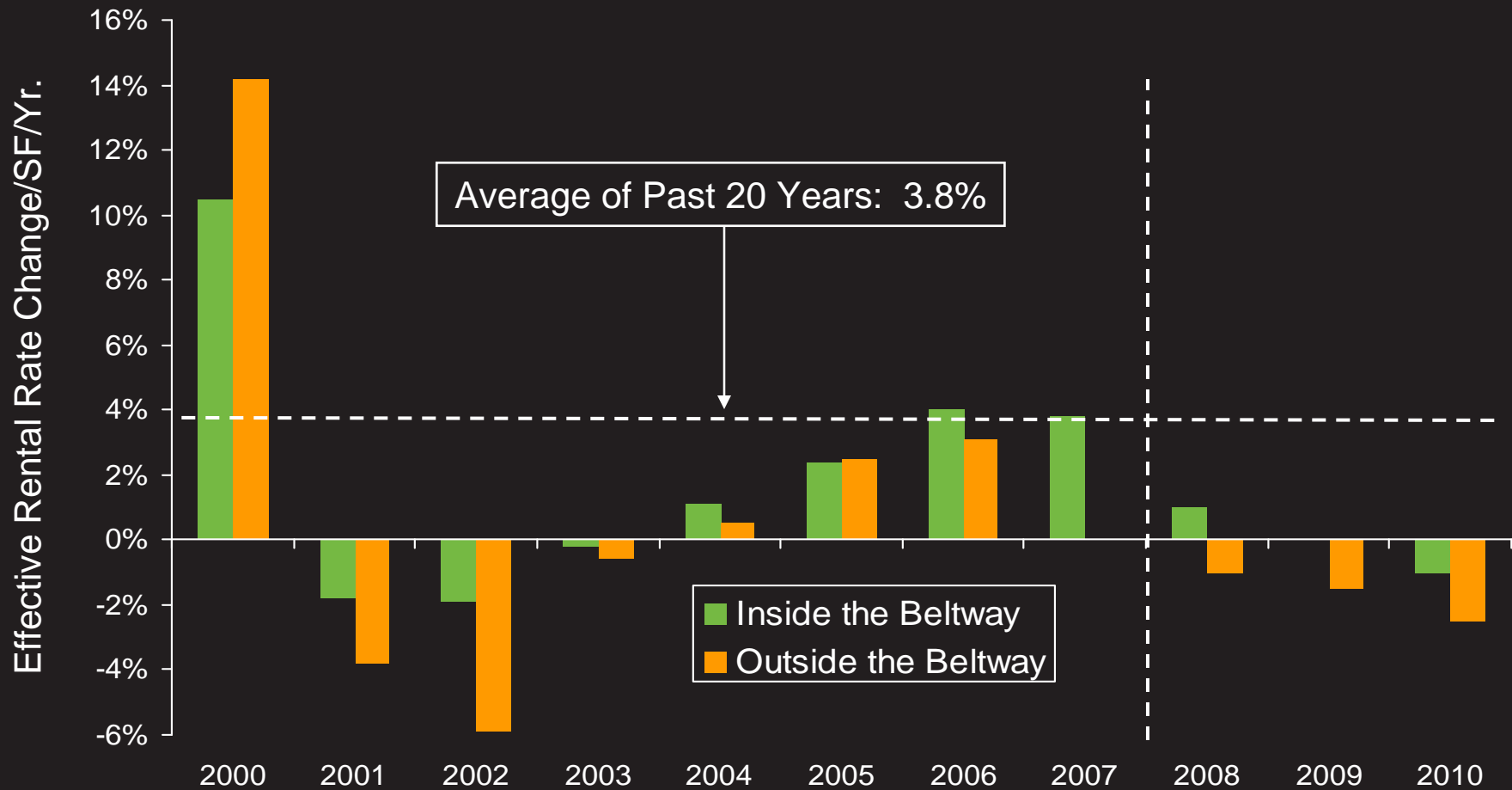


Source: CoStar, Delta Associates; December 2008.



OFFICE RENT GROWTH PER YEAR

WASHINGTON METRO AREA 2000 – 2010



Source: CoStar, Delta Associates; December 2008.



CREDIT CRISIS: IMPACTED SUBMARKETS?

➤ **Financial Recovery Agency Locations:**

- CBD / East End
- NoMa
- Rosslyn-Ballston Corridor

➤ **Financial Firms Mainly Located in:**

- Tysons Corner
- Reston
- Bethesda / Chevy Chase



Third Quarter 2008 Update

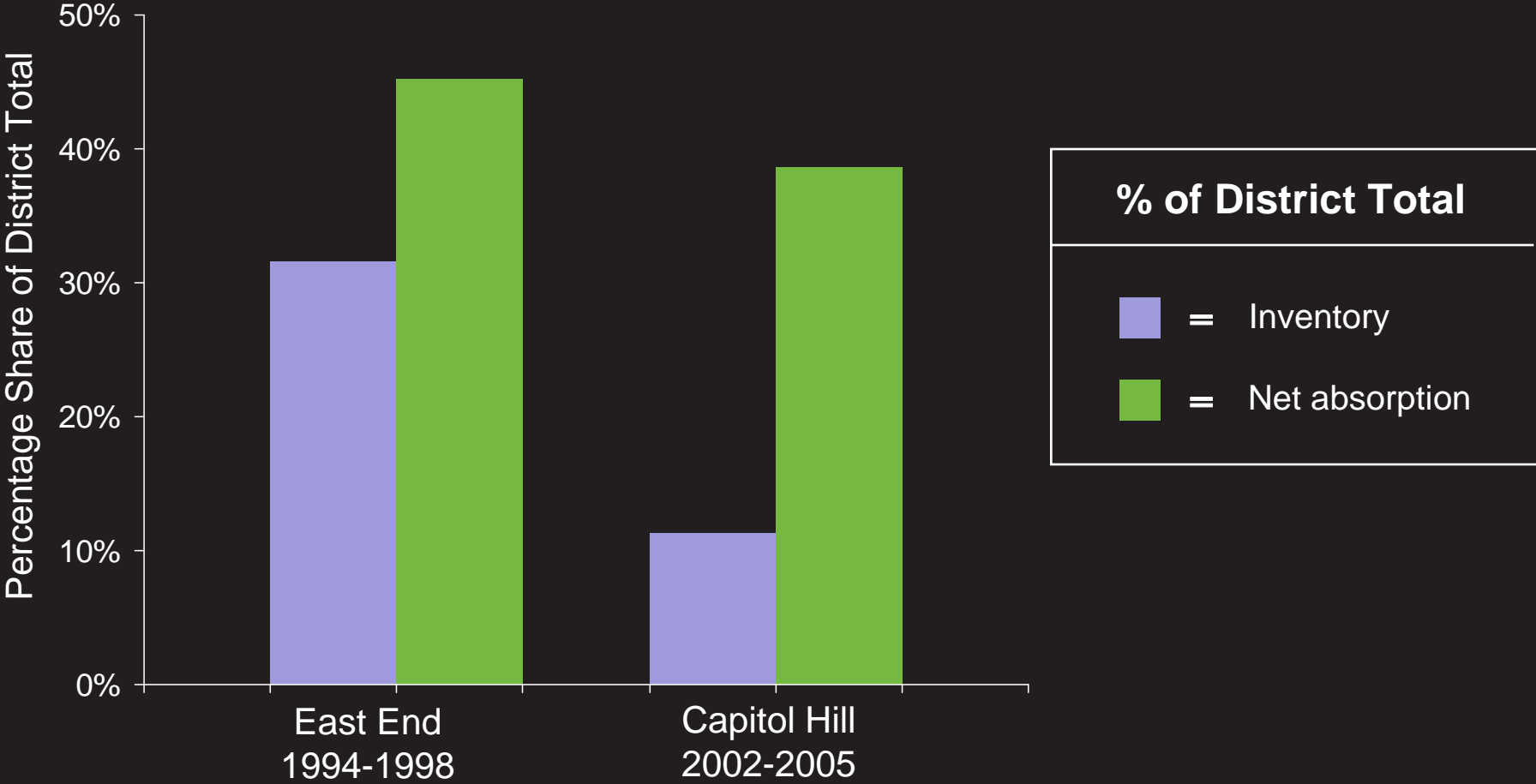


ANTICIPATING
THE ECONOMIC
UPTURN IN THE
CAPITOL
RIVERFRONT BID



FRONTIER OFFICE SUBMARKETS

OUTPERFORM THE DISTRICT IN MARKET UPTURNS



Source: Delta Associates; December 2008.



ASSETS OF THE CAPITOL RIVERFRONT BID

➤ **Attractive to Residents:**

- More than 7,000 new residential units under construction or planned
- Pedestrian-friendly environment
- Plans include new grocery stores, four new parks and a riverfront trail

➤ **Attractive to Visitors:**

- New baseball stadium that attracted more than 2.3 million visitors in 2008
- Accessible by two metro stations on the green, orange, and blue lines
- Easy access to Reagan National Airport; 921 hotel rooms under construction or planned

➤ **Attractive to Workers:**

- Currently 35,000+ employees, projected to be 95,000+ at build-out
- Location of many headquarters, including the U.S. Navy and U.S. DOT
- Mix-used environment provides everyday conveniences

➤ **Attractive to Businesses:**

- 4.2 million SF of existing office space, with another 654,000 SF under construction and 8.7 million SF planned
- Lease rates substantially lower than downtown
- Walking distance to the legislative seat of government



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